

An Inquiry of Internal Control Practices of California Community Colleges

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An Inquiry of Internal Control Practices of California Community Colleges

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Abstract

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California community colleges are a two-year higher education system with 72 community college districts (district) that have 112 colleges. Some districts are single-campus districts, while others are multi-college campus districts. This exploratory ethnographic mixed methods study inquired about the Internal Control practices of these districts seeking to identify what the practices are. This study's conceptual framework included: a) the Internal Control practices of higher education; b) the Internal Control role of management; and c) best practices of the United States' Sarbanes-Oxley Act of 2002 (SOX).

In-person interviews, survey, artifacts, and field notes were the basis for the study's findings and conclusions. Interviews were conducted at three multi-college districts headquarters. Interview data were used to develop the survey, which was then administered to the remaining CFOs and CAEs of the other 69 Districts.

The findings indicated the Internal Control practices of California community colleges are guided by the compliance requirements of the California Community Colleges' Chancellor's Office, California Education Code, California Government Code, Federal compliance requirements (A-133), as well as the Board approved policies of each California community college district. The practices include control activities, conflict of interest policies, code of ethics policies, whistleblower policies, shared governance, risk assessment, monitoring of Internal Controls, and corrective action on Internal Control deficiencies by District management, and internal audit. Integrity and accountability were identified by study participants as the benefits associated with their districts' practices.

Conclusions indicate practices are congruent with the best practices of Internal Controls of higher education and the best practices identified in SOX; however, internal audit, risk assessment, monitoring of Internal Control activities by management, and correction of Internal Control deficiencies by management are marginalized by most of the districts in their Internal Control practices raising issues of risk. Three best practices that may improve the districts' practices – joint control self-assessment between internal audit and the other units of the districts, promotion of a positive control environment, and certification of the adequacy and effectiveness of each district's system of Internal Controls by senior and middle management of the district – were among those identified by participants.

Dedication

To my three Children, Fornati, Tinisi and Kweisi Kumeh

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Chapter 1: Introduction to the Problem

Background

California community colleges (CCC) are part of a two-year higher education system with three primary missions mandated by the California Education Code Section 6610.3. The three primary missions are to provide (a) basic education skills, (b) transfer courses for students to four-year private and public institutions of higher education, and (c) career and technical education. The CCCs are also authorized by Education Code Section 6610.3 to grant Associate of Arts and Associate of Science two-year degrees.

The 2010 accountability report of the California Community College Chancellor's Office (CCCCO) shows the system currently consists of 72 community college districts with a total of 112 colleges and enroll 2.9 million students annually (CCCCO, 2010). Some districts are multi-college campus districts and some are single-college campus districts. Each district is managed by a local Board of Trustees. In addition, the CCCCCO provides leadership, advocacy and support for the community colleges pursuant to California Government Code Sections 70901(a) and (b).

To help the CCCCCO lead, direct, and supervise the districts, each district is required to provide periodic reports to the CCCCCO on student enrollment, student learning outcomes, student graduation, and student transfers to four-year private and public colleges and universities. Also, annually, each district is required to provide an independent single audit report of its operations to the CCCCCO that includes an opinion on the adequacy of the district's system of Internal Control.

Reviews of single audits reports of six of the 72 districts for fiscal years 2008-09 and 2009-10 conducted by independent certified public accountants indicate some Internal Control deficiencies (Matson & Isom Certified Public Accountants, 2009; Nystrom & Company LLP Certified Public Accountants, 2009; Perry & Smith Certified Public Accountants, 2010; Vasquez & Company LLP Certified Public Accountants and Business Accountants, 2010; Vavrinek, Trine, Day, & Co., LLP Certified Public Accountants, 2011; Vincenti, Lloyd & Stutzman LLP Business Consultants and Certified Public Accountants, 2009). Examples of the deficiencies are summarized in Table 1.

Table 1

Examples of Internal Control Deficiencies – Fiscal Years 2008-09 and 2009-10

Report	Deficiency
Matson & Isom (2009)	Access to computer systems showing duplicate profiles for users with more than one role and terminated employees being active in the financial system.
Nystrom & Company LLP Certified Public Accountants (2009)	Charging students more than the actual costs of course material.
Perry-Smith LLP (2010)	Not properly assessing student enrollment fees for students that enrolled in more than 11 semester units per semester.
Vasquez & Company LLP Certified Public Accountants and Business Consultants (2011)	Lack of adequate controls in place to ensure that social security payments are made for all student workers and that all employees that work more than 1,000 hours per year are enrolled in CALPERS and Social Security
Vavrinek, Trine, Day & CO., LLP Certified Public Accountants, 2010	Lack of clearly documented procedures in use when an employee resigns or is terminated to ensure that the terminated employee or an employee that resigns, does not have access to confidential district records.
Vicent, Loyd and Stutzman LLP Business Consultants and Certified Public Accountants (2009)	Detailed and summary reports used to report FTEs for student contact hours of daily census courses did not agree.

Further reviews of single audits reports of two of the 72 districts of the system, conducted by independent certified public accountants for fiscal years 2005-06 and 2006-07, also show some Internal Control deficiencies at the two districts. Examples of some of the deficiencies are shown in Table 2.

Table 2

Examples of Internal Control Deficiencies – Fiscal Years 2005-06 & 2006-07

Report	Deficiencies
Gilbert & Associates, Inc. CPAs (2006)	Inability to provide some enrollment records; Inability to provide records of students that were not charged excessively for material fees;
Macias Gini & O’Connell LPP CPAs (2007)	Lack of adequately trained staff to prepare required financial statements; lack of account reconciliations of cash, inventory, sales and cost of sales on a regular basis; and inaccurate student records.

Single audits are combined financial and compliance audits of state, local government, and non-profit entities including institutions of higher education receiving federal funding of \$500,000 or more annually. The audits include evaluation of the entities’ systems of Internal Controls over financial reporting and the operations of the federal funds. Single audits are required by the Single Audit Act of 1984 as amended in 1996 (Manning, 2010). Manning noted the “OMB [Federal Office of Management and Budgets] Circular A-133, Audits of States, Local Government and Non-profit Organizations, sets standards for implementing the Single Audit Act” (p. 1).

According to Dietz and Snyder (2011), evaluating and improving Internal Controls are integral parts of management. Dietz and Snyder (2011) stated, “improving Internal Controls can enhance the operations of any organization by promoting more

effective and efficient use of assets, deterring fraud, and improving compliance; a system of Internal Control also needs to be evaluated on a continuous basis” (p. 99).

Problem Statement

A review of a sample of single audit reports of California community colleges evidence Internal Control deficiencies that may hamper efficiency and effectiveness of their operations.

Purpose and Significance of the Problem

According to Fargher and Gramling (2005), “weaknesses in Internal Control can relate to weakness in the design or the operations of the Internal Controls” (p. 26). Petrovits, Shakespeare, and Shih (2009) also stated, “Internal Controls are established to provide assurance that operations are running efficiently and that financial reporting is reliable” (p.11); [and] poor Internal Controls cause an organization to spend more on administrative costs and less on mission-driven expenses” (p. 23). Jeffrey (2008) stated, “strong Internal Controls help a company ensure it is not wasting valuable resources; strong Internal Controls helps a company ensure it is serving its customers better than its competitors are” (p. 52).

Based on California State Budgets for fiscal years 2010-11 and 2011-12, over the past two years, public institutions of higher education in California have received less funding from the state and local governments (California Department of Finance, 2011). This may be partly due to the state and local governments’ own budget deficits. With limited budgetary resources allocated to public higher educational institutions in California, including community colleges, enhancing Internal Control systems and practices at CCCs may help the colleges establish efficient operating processes that may

enable them to operate more efficiently and effectively. This study explores the Internal Control practices of CCCs and how the practices compared to the best practices of the Sarbanes-Oxley Act of 2002 (SOX) relevant to Internal Controls that have been adopted and implemented by institutions of higher education and are, in general, the best practices of Internal Controls of higher education (Bradford, Taylor, & Brazel, 2010; Oxholm, 2004; Seaman, 2006). The Internal Control practices of CCCs are also compared to the best practices of Internal Controls of higher education. Where best practices are identified, the study explores the benefits associated with the practices. In addition, the study looks at the benefits associated with the college practices.

The significance of the problem is that community colleges in California receive a larger percentage of their annual funding from local property tax revenues and state general fund revenues. Inadequate and ineffective Internal Controls may further adversely affect the already limited budgetary resources of the community colleges. The districts with weaker Internal Controls will benefit from strong and adequate Internal Controls to provide reasonable assurance of effectiveness and efficiency of their operations, compliance with applicable laws and regulations, and deterrence of fraud and misappropriations of their resources (Dietz & Snyder, 2011; Simmons, 1997).

In 2002, the United States Congress passed SOX to strengthen Internal Controls and other financial and regulatory requirements of public companies because of financial improprieties of the leadership of large companies like WorldCom, Enron, and TYCO (Oxholm, 2004; Seaman, 2006). The financial improprieties at these companies were successful because of poor and ineffective Internal Controls (Seaman, 2006). Deficiencies in Internal Control and their effects are not unique to profit-oriented and

large organizations such as Enron and WorldCom. Deficiencies in Internal Control also occur in non-profit organizations such as institutions of higher learning and school districts. For instance, according to Huefner (2010), the Chief Financial Officer (CFO) of a small district of about 3,300 students in the State of New York misappropriated \$223,000 from the district in the early 2000s. Further investigation of the school district's finances and operations by the Office of the Controller of the State of New York found the financial impropriety totaled more than \$11 million and involved other employees of the school district besides the CFO. The President of American University was forced to resign because of misuse of the university funds (Seaman, 2006). These and other examples in the literature are the reasons why it is important all organizations establish and maintain adequate and effective systems of Internal Controls of their operations.

In addition, while there is significant literature on Internal Controls of profit-oriented organizations, there is limited literature on Internal Controls of non-profit organizations, especially institutions of higher education. This study will contribute to the literature of Internal Controls on institutions of higher education especially community colleges. The study will also contribute to Internal Control practices of community colleges and other institutions of higher education.

General Research Questions Focused on Solution Finding

For purposes of this study, the following four research questions were used to explore the Internal Control Practices of California community colleges.

1. What are the Internal Control practices of California community colleges?

2. What role does management of California community colleges play in the Internal Control practices of the community colleges?
3. How have California community colleges benefited from their Internal Control practices?
4. How do the Internal Control Practices of California community colleges compare to best practices of higher education and the best practices established in the Sarbanes-Oxley Act (SOX) of 2002?

Conceptual Framework

The research stances that guide this study are pragmatism, social-constructivism, ontological, and axiological. From a pragmatic stance, my interest is in the outcome of research that leads or can lead to workable solutions and what the consequences of the research will be. As a social constructivist, I contend that there is no single solution to a problem. The solution to any problem is contextual and depends on the individual and on the specific circumstance.

Taking an ontological perspective, I believe multiple realities will be reflected in descriptions from my field notes, as well as the participants' perspectives. Creswell (2007) characterized ontological philosophical assumption as "the nature of reality that defines something as being real when it is constructed in the minds of the actor involved in the situation" (p. 17). He stated, "reality is subjective and multiple as seen by participants in the study" (p. 17). The construction of human minds governs human and organization behavior irrespective of science, reason, and objective reality. Finally, I include an axiological stance recognizing that as Creswell (2007) notes, the "researcher's acknowledgement that research is value-laden and that biases are present" (p. 17).

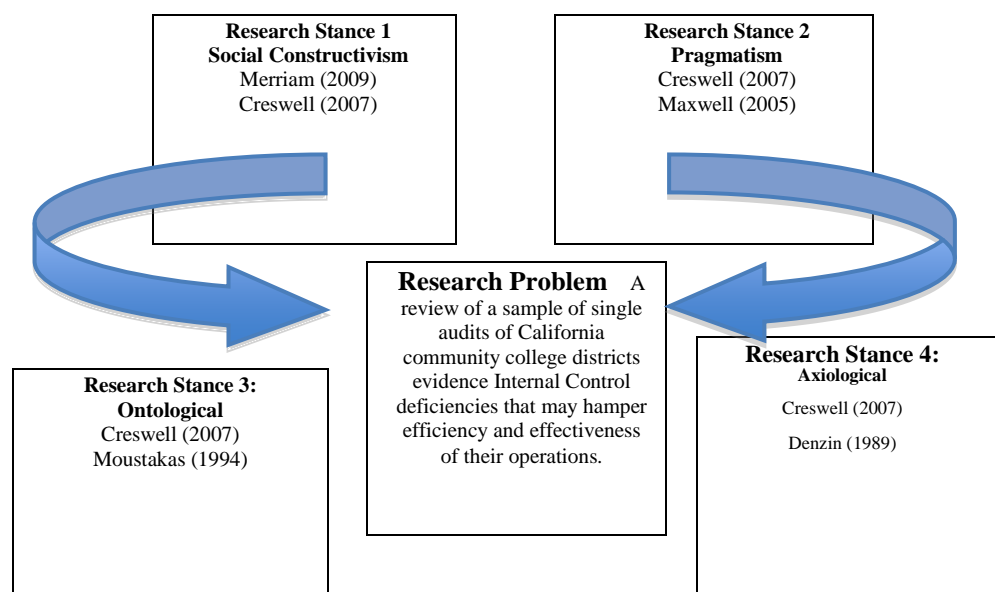


Figure 1. Research stances

Based on the researcher's 14 years of experience in reviewing Internal Controls, a weakness in an Internal Control system may impede an organization's ability to achieve its goals and objectives effectively and efficiently. A weak and ineffective system of Internal Control of an organization may also impede the effectiveness and efficiency of the college districts' operations.

This study was chosen to identify some best practices of Internal Controls at higher educational institutions as well as best practices of SOX relative to Internal Controls that may be adopted and utilized by the colleges to eliminate or mitigate the deficiencies. According to Seaman (2006) and Oxholm (2004), some institutions of higher education have adopted best practices of SOX enhancing their Internal Controls in the process. This study may provide insights as to whether or not the best practices of SOX implemented at some higher educational institutions and best practices of Internal

Controls of higher education may be utilized by CCCs to achieve their missions effectively and efficiently. It may also serve to mitigate and/or eliminate the deficiencies described above at the CCC districts that have poor Internal Controls.

The researcher's interests in conducting this study developed after reading reports of audits of eight CCC districts conducted by independent certified public accountants. Three reports were for fiscal years 2008-09 and another three were for 2009-10. The other two were for 2005-06 and 2006-07, respectively. The eight audits were conducted by different certified public accounting firms. Some of the Internal Control deficiencies cited in the reports may adversely impact the efficiency and effectiveness of the community colleges in achieving their missions if the deficiencies are not mitigated or corrected.

The three streams of research forming the foundation for this study are (1) Internal Control practices of higher education; (2) Internal Control role of management; and (3) best practices of the U.S. Sarbanes-Oxley Act of 2002. Internal control is a governing tool profit-oriented, as well as non-profit, organizations use to operate and monitor their operations. The need for financial controls or Internal Controls at colleges and universities is not a new phenomenon. Stumpf (1943) advocated:

Within the limits set by the character and purposes of a college or university, the business administration should supply controls and the experience for interpreting the effect of business and financial facts upon the institution. Approved business methods must be employed to fortify the institution against unfounded charges. (p. 21)

However, Stumpf cautioned that because certain types of organizations and procedure are effective in commercial or industrial entities does not necessarily mean they are appropriate or equally effective in a college or university. The second research

stream for this study concerns the role management plays in the design, implementation, and maintenance of Internal Controls of an organization. According to Tsay (2010), leadership (top management) must provide proper resources for the Internal Control functions. Tsay (2010) suggested, “top management is the ultimate authority in establishing the company’s Internal Control system; its attitude towards Internal Control system affects the degree of employees’ willingness to cooperate and comply with the system” (p. 55). One of the factors considered in selecting an Internal Control framework is anticipated management buy-in (Brune, 2004).

The third research stream for this study covers the best practices of SOX in higher education. SOX was enacted into law by the United States Congress in 2002 to improve the transparency, timeliness, and quality of financial reporting (Cappelletti, 2009). Although, SOX is not applicable to institutions of higher education, some institutions of higher education have adopted and implemented the best practices of SOX that are relevant to Internal Controls (Jeffery, 2008; Oxholm, 2004; Seaman, 2006).

Figure 2 provides a visual reflection of the conceptual framework. The three research streams are discussed in detail in the Literature Review in Chapter 2.

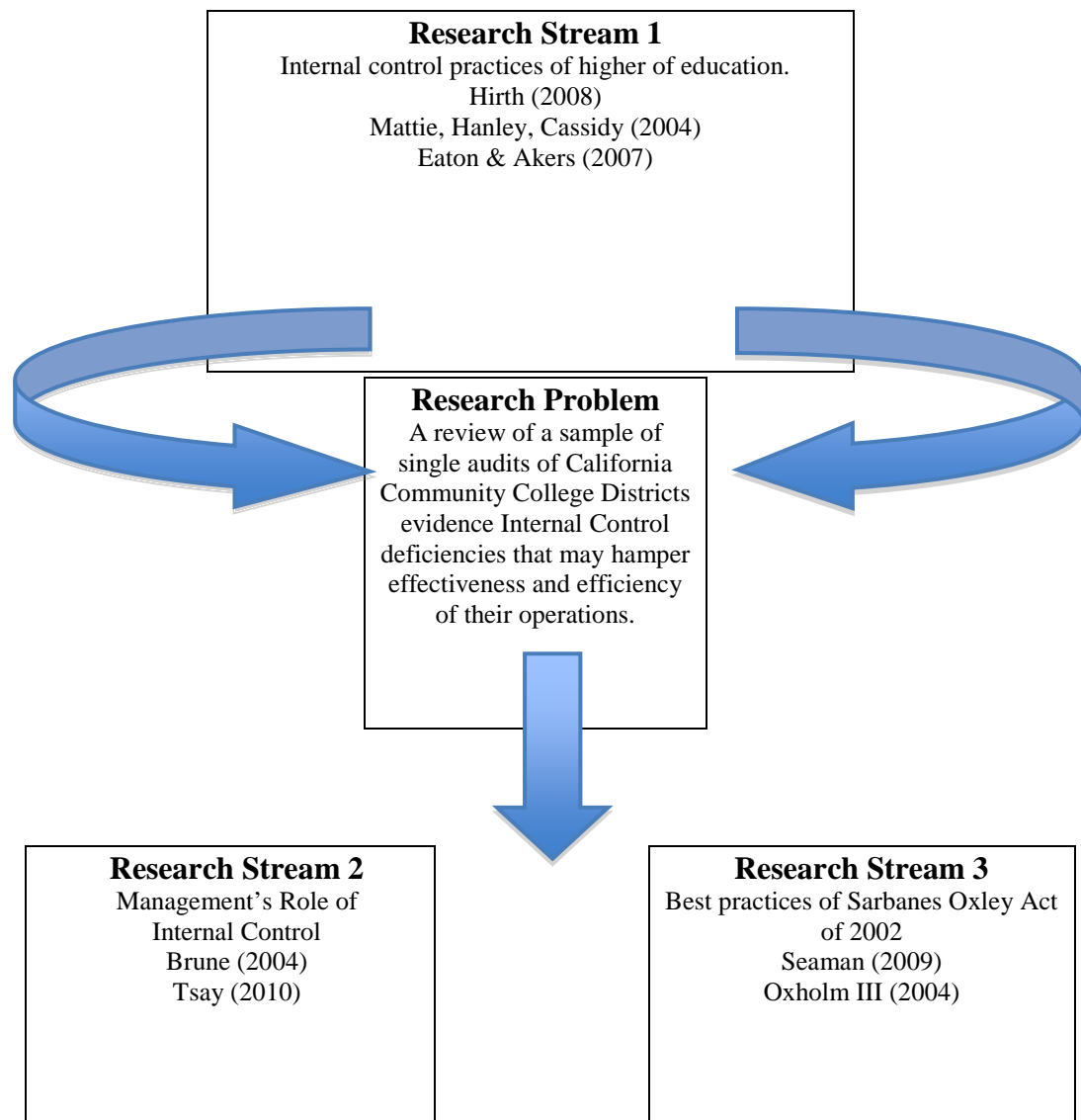


Figure 2. Research Problem and Theoretical Framework

Definition of Terms

Best practices of Internal Control

Internal Control practices promoting efficiency and effectiveness of operations and compliance with applicable laws and regulations, providing reliability and

accuracy of financial and operating information, and deterring and minimizing fraud.

California Community Colleges

California community colleges are two-year colleges authorized by California law to prepare students for career, basic skills, and transfer to four-year colleges and universities, and life-long learning.

Chief Audit Executive (CAE)

An employee of a California community college district who has the job title of Internal Auditor and is responsible for the internal auditing functions of the college district. He or she may be the sole auditor for the college district or the manager or supervisor of all the Internal Auditors for the college district.

Chief Financial Officer (CFO)

The Vice Chancellor for Administrative Services for a multi-campus community college district or the Vice President/Associate Superintendent of a single-campus community college district.

Fraud

A fraud is an intentional unauthorized use of an organization's resources for personal gain.

Internal Controls

Internal Controls are measures and actions formulated and effected by an organization including information systems, policies, and processes an organization can utilize to protect itself and its resources from events and conditions that may adversely affect it, operate effectively and efficiently, comply

with applicable laws, and provide accurate reports to its internal and external constituents.

Private companies

Private companies are profit-oriented companies whose shares of stocks are not sold to the public on a stock exchange.

Public companies

For-profit organizations whose shares of stocks are sold to the public on a stock exchange.

Risk

A risk is the chance of loss or degree of probability of loss.

Single audit

A single audit is a combined financial and compliance audit of a state, local government, or non-profit entity including an institution of higher education receiving federal funds in excess of \$500,000. The audit includes Internal Control over financial reporting and operations of the federal funds.

Treadway Commission

The Treadway Commission is a voluntary committee composed of the American Accounting Association, American Institute of Certified Public Accountants, Financial Executive International Institute of Internal Auditors, and the Institute of Management Accountants that developed the Integrated Framework of Internal Control also known as the COSO Framework.

Assumptions and Limitations

This study is based on the foundation of literature of Internal Control practices of higher educational institutions, management's role in assuring Internal Controls, and best practices of SOX relevant to Internal Controls that have been adopted at institutions of higher education (Goins, Giacomino, & Akers, 2009; Oxholm, 2004; Seaman, 2006). It is assumed the results of this study may be utilized by the community colleges to strengthen and improve the design and implementation of their Internal Control systems when necessary.

The limitation of this study is that interviews were drawn from only three of the 72 districts. The sample size for the survey was only 82 participants, so a response rate of 23% (19), while significant for survey research, is still a relatively small response pool. Therefore, the findings of the study may be germane to the three districts and the districts that responded to the survey but not necessarily reflectant of the experiences of other community colleges within and outside California.

Summary

Audit findings of Internal Control deficiencies at some CCCs for fiscal years 2005-06, 2006-07, 2008-09, and 2009-10 noted in the introduction may have been attributable to a lack of development and/or implementation of adequate systems of Internal Controls. This study explores the Internal Control practices at community colleges in California and the roles of management of the California community colleges regarding the Internal Control practices of the colleges. It identifies the benefits associated with the Internal Control practices of the colleges and compares the practices to current best practices of Internal Controls in higher education and the best practices of

SOX relative Internal Controls that have been adopted by higher educational institutions. It is hoped the results of this study may be utilized by the community colleges and other institutions of higher education to inform, strengthen, and improve their Internal Controls. The study also contributes to the literature on Internal Controls of community colleges and other institutions of higher education.

Chapter 2: Literature Review

Introduction of the Problem

A review of a sample of single audits of California community college districts evidence Internal Control deficiencies that may hamper efficiency and effectiveness of their operations. Based on previous research, it is evident that weakness in Internal Controls may “cause an organization to spend more on administrative costs and less on mission-driven expenses” (Petrovits et al., 2009, p. 23). Jeffrey (2008) suggested, “strong Internal Controls helps a company ensure it is serving its customers better than its competitors are” (p. 52). In the case of California community colleges, the students and the citizenry of California are their customers.

Based on California State Budgets for fiscal years 2010-11 and 2011-12, public institutions of higher education in California have received less funding from the state and local governments partly due to state and local governments’ own budget deficits (California Department of Finance, 2011). With limited budgetary resources allocated to public higher educational institutions in California, including community colleges, good Internal Control systems and practices at California community colleges may help the colleges operate more efficiently and effectively. This study sought to explore the Internal Control practices of California community colleges and how their practices compared to the best practices of Internal Controls of the U.S. Sarbanes-Oxley Act of 2002 that were adopted and implemented by institutions of higher education. The study considered the benefits associated with the Internal Control practices of the colleges.

Conceptual Framework

The literature review of this study covers three research streams: (1) Internal Control practices in higher education, (2) management's role of Internal Controls, and (3) the best practices of the U.S. Sarbanes-Oxley Act of 2002. Management's role of Internal Control is vital to the design, implementation, and monitoring of a system of Internal Control of an organization. Buhariwalla (2006) suggests it is the chief executive officer (CEO) and other senior management who provide the Internal Control awareness and tone for their organizations. Management across the organization has the overall responsibility for the design, implementation, and monitoring of the system of Internal Controls. Hence, the management of an organization has to buy into and support Internal Controls of the organization for the controls to be effective and helpful in accomplishing the missions, goals, and objectives of the organization.

As mentioned in Chapter 1, the United States Congress enacted SOX as a result of wrongdoings by management of corporations like ENRON, WorldCom, Tyco, and other corporations in the United States (Jeffery, 2008; Seaman, 2009; Thomas, 2002). In practice, SOX is intended to strengthen the accuracy and reliability of financial reporting by public companies and to hold the management of these companies more accountable for the companies' financial reports and systems of Internal Controls (Oxholm, 2004; Seaman, 2009). Although the requirements of SOX do not directly apply to higher education, private companies, and non-profit organizations, some institutions of higher education have voluntarily adopted and implemented some of the best practices they determined to be applicable and in the best interest of higher education.

Research Stream 1 – Internal Control Practices of Higher Education

Historical basis. Internal Control is not a new phenomenon in higher education governance. In 1943, W.A. Stumpf, an associate of a committee of the Association of College and University Business Officers, provided some insights about the importance of Internal Controls at colleges and universities. In his writing, he also cautioned colleges and universities that controls effective in a commercial or industrial entity may not necessarily be appropriate or equally effective in a college or university.

Within the limits set by the character and purposes of a college or university, the business administration, should supply financial controls and the experience for interpreting the effects on the business and financial facts upon the institution; approved business methods must be employed to fortify the institution against unfounded charges, but because certain types of organization and procedures are effective in commercial or industrial concerns does not necessarily mean that they are appropriated or equally effective in a college or university. (Stumpf, 1943, p. 21)

Call for institutional accountability. The current surge in the importance of good Internal Control practices in higher education is due to several factors. The stakeholders of higher education – the local, state, and federal governments – who fund higher education through budgetary appropriations, student loans, and research grants require the institutions to be more accountable and establish Internal Controls over the funds provided to the institutions. For instance, the U.S Single Audit Act of 1984 as amended in 1996 requires institutions of higher education and non-profit organizations, which spend \$500,000 or more in federal funding, to establish and maintain Internal Controls over the operation of these funds (Foelster & Scott, 1998; Manning, 2010). D'Aguilla (1998) also stated, “Internal Control and financial reporting have received increased attention especially since the Treadway Commission (1987) identified the tone

set by senior management as the most important factor contributing to the integrity of the financial reporting process” (p. 473).

Enactment of the U.S. Sarbanes-Oxley Act (SOX). Most recently, the enactment of SOX in 2002 by the United State Congress also contributed to the awareness of Internal Controls at profit-based organizations. While institutions of education, other non-profit entities and private companies do not have to abide by the requirements of the SOX, the act has impacted the current Internal Control practices of private and non-profit entities including institutions of higher education (Oxholm, 2004; Seaman, 2006). According to Seaman (2006), Drexel University has voluntarily adopted the provisions of SOX that are applicable to non-profit organizations.

Other stakeholders such as students and their parents, alumni, and taxpayers are increasingly requiring institutions of higher education to be more accountable, efficient, and effective. In addition, Wells (2006) noted the need for more efficient and effective operating processes and stronger systems of Internal Controls that have been necessitated by unethical acts by some stewards of higher educational institutions through management overrides of the institutions’ Internal Control systems. According to Wells (2006), the president of a large urban public university who spent over \$400,000 of the university’s funds for personal purposes was subsequently fired when a reporter with the help of an adjunct professor, a CPA with knowledge of the state’s open records law, uncovered the misuse of the university’s funds.

Internal control defined. As part of the 1992 Internal Control Integrated Framework, the Committee of Sponsoring Organization (COSO) also known as the Treadway Commission defined Internal Control as follows:

Internal control is a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations; a system of Internal Controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations. (as cited in Koutopis, 2007, p. 23)

Simmons (1997) suggested the primary objectives of Internal Controls are:

To provide reasonable assurance that financial and operating information is accurate and reliable; policies, procedures, plans, laws, and regulations are complied with; assets are safeguarded against loss and theft; resources are used economically and efficiently; and established program/operating goals and objectives will be met. (p. 1)

While Hirth (2008) offered the following as components of best practices of Internal

Control:

Activities that will improve an organization today and in the future; engagement of organizations in events that will improve control over time; the knowhow of building and maintaining a mindset and culture that supports and compliments the controls of an organization; and cultivation of the leadership of the organization to understand, appreciate, and further the control environment. (pp. 50-51)

Hirth (2008) further suggested that a best practice needs better internal auditors with better training in internal auditing and understanding of risk assessment.

Higher education and Internal Control. Lester and Lukas (2008) suggested shared governance – a practice in community colleges where faculty and management jointly make decisions in matters involving curriculum, hiring and promotion, admissions, and student retention – is a major hallmark of higher education. “Campus governance is a system that exists on the majority of community college campuses across the nations. Faculty come together as nonsexist, nonracist and non-gendered individuals to participate in institutional processes and practices” (Lester & Lukas, 2008, p. 65).

Miller and Miles (2008) also noted that in addition to faculty, the staff, students, and trustees jointly participate in shared governance utilizing a variety of available means to help hear and consider the voices of those closest to students and services of community colleges. Miller and Miles (2008) also identified that internal governance as a form of open communication and consensus building among all employees has the benefits of higher morale, motivation, retention, and organizational effectiveness. “In practice this means college administrators will have a greater success adapting their colleges to societal changes by involving multiple constituencies in the decision-making practices” (p. 42).

Because of limited literature on Internal Control practices of higher education, this study relies upon research conducted by the National Association of College and University Business Officers (NACUBO) to determine the Internal Control practices of higher education. Current Internal Control practices at educational institutions have been impacted by SOX and laws such as the Single Audit Act of 1984 as amended in 1996 requiring an institution of higher education that expends a total of \$500,000 or more in federal funds in a fiscal year to establish Internal Controls over its federally funded programs.

An institution’s system of Internal Control is an integral and important part of its governance structure. According to Mattie, Hanley, and Cassidy (2004):

Internal controls are essential to the success of the business operations of colleges and universities including those with medical centers (AMCs) and other non-for-profit educational institutions. Internal controls assist board members and management in carrying out their fiduciary duties and operating responsibilities. They help to facilitate the preparation of timely and accurate financial reports and information; ensure that the institution complies with federal and state laws and regulations; and foster effective and efficient campus operation. (p. 4)

Internal controls are very important in many operational areas of an institution of higher education (Huddleston, 2005). Similar to David (2009), Huddleston espoused Internal Controls enhance transparency and accountability. Strong Internal Controls provide competitive advantage. In addition, when an organization has strong Internal Controls, it can respond to risk more quickly (Jeffery, 2009).

Voluntary adoption and implementation of best practices of SOX by NACUBO. Some of the benefits non-public companies accrue as a result of undertaking Internal Control activities include improved processes, broadened employees job responsibilities, elimination of duplicate activities, and automation of manual controls (Bradford et al., 2010). In November 2003, about a year and a half after SOX was passed, NACUBO studied SOX and issued its Advisory Report 2003-03 for its member institutions based on the requirements of SOX it considered applicable to higher education. The NACUBO report contains recommendations for higher educational institutions suggesting they should

- have an independent audit committee where management representatives on the committee are not voting members of the committee, and the committee has at least one financial expert who is familiar with estimates, accruals, and reserves relevant to higher education;
- consider rotating the financial experts and plan for the costs of recruiting, training and retaining the financial expertise;
- plan how its Internal Control is assessed using the COSO model of Internal Control framework which is considered the most widely accepted model for controls;
- test the assessed controls to ensure its compliance;
- consider its internal audits department, if it has one to periodically report on its Internal Controls to the audit committee;
- require audit engagement letter for its independent auditors to be addressed to the audit committee of the institution;

- prohibit its independent auditors from providing non-audit services and any non-audit services be pre-approved by the audit committee;
- require rotation of the partner of its audit firm who is in-charge its audits, every seven years;
- adopt a code of ethics for senior financial managers that is reviewed by the audit committee for adequacy and for assurance of compliance; and
- ensure that documents and records received and sent in connection with audits are retained for a period of seven years. (NACUBO, 2003, pp. 23-24)

NACUBO's recommendation emphasized the importance and responsibilities of an audit committee of an institution of higher education. George (2005) also considered an audit committee as an integral element of public accountability and governance in the public sector entities.

Public sector entities include state and local governments, federal agencies, public entities, hospitals, colleges and universities. The audit committee is an integral element of public accountability and governance. An audit committee must be independent to contribute to the financial reporting process. An independent audit committee can help reinforce a culture of zero tolerance for fraud. The combination of independent oversight and the technical expertise of an audit committee members enhances accountability. (George, 2005, p. 42)

NACUBO recommended in its 2003 Advisory Report that institutions of higher education should plan on using the COSO's Integrated Internal Control Framework to assess their systems of Internal Controls. The COSO Internal Control framework has five components (Steinberg & Tanki, 1992) including control environment, risk assessment, control activities, information and communications, and monitoring. These components are aligned with five of the eight components of NACUBO's Enterprise Risk Management Integrated Framework.

Subsequent to its 2003 Advisory Report, in 2005 NACUBO conducted a survey of college and university officers of its member institutions. The purpose of the survey was to help board members, presidents, officers, and managers of higher educational

institutions to learn about the Internal Control and business practices of other institutions. The survey covered Internal Controls and three Internal Control related topics: governance, certification of financial statements and Internal Controls, and enterprise risk management.

The survey questions about governance centered on the activities of the audit committee of universities and colleges. Based on the survey results on governance, it appeared most colleges and universities, especially private colleges and universities, have audit committees overseeing their annual audits and appointing their external auditors. In addition, each institution's audit committee had at least one member with expertise in accounting and finance. However, two apparent short-comings were noted in the results 1) for important areas such as evaluation of external auditors and addressing engagement letters to audit committees, the responses were 50% and 52%, respectively, affirmative for public and private institutions; and 2) for rotation of audit firms every seven years, the affirmative responses were 37% and 52%, respectively, for public and private institutions. The responses to the questions on audit committees are shown in Table 3.

Table 3

NACUBO Survey Results – Audit Committee

Question	Public Institution	Private Institution
Institution has an audit committee?	88%	95%
Audit committee has charter?	71%	74%
Committee includes at least one financial expert?	73%	95%
Committee oversees annual financial statement audit?	89%	99%
Committee involved in selection of external auditor	67%	96%
Committee evaluates performance of external auditor	52%	85%
Audit engagement letter addressed to audit committee	50%	66%
External auditor reports to audit committee?	59%	81%
Committee pre-approves non-audit services performed by external auditors?	38%	56%
Auditor lead partner rotates every 7 years?	37%	52%

Note. Adapted from NACUBO, 2005, p. 6.

The NACUBO survey showed most institutions do not plan how their Internal Controls are to be assessed. Also, the management of most institutions does not report on their Internal Controls. However, the report showed the management of public institutions did better reporting on the Internal Controls of their institutions than independent institutions did. Higher education institutions also conduct limited risk assessments of their Internal Controls, according to the survey. The responses to the survey questions on Internal Controls are shown in Table 4.

Table 4

Assessment of Internal Controls

Question	Public Institution	Independent Institution
Does management report periodically on Internal Controls ?	51%	38%
Has the institution already planned how an assessment of Internal Controls on its campuses could be conducted?	36%	17%

Note. Adapted NACUBO, 2005, p. 12.

As noted above, certification of financial statements and Internal Controls by the President and CFO of the institutions is one of the four areas covered by the NACUBO survey. When senior officers such as the President and CFO of an institution sign an Internal Control report and/or the financial statement of the institution, it provides some assurance the financial report is reliable and the Internal Controls are properly designed and working as intended. As shown by the survey results in Table 5, more CFOs and other financial managers at public higher educational institutions certify financial statements and results compared to independent institutions.

Table 5

Certification of Financial Statements and Form 990 by Management

Question	Public Institutions	Independent Institutions
CFO already signs financial statement?	53%	25%
CEO already signs financial statement	41%	19%
Financial managers sign financial results?	42%	30%
CFO signs the Form 990?	53%	81%

Note. Adapted from NACUBO, 2005, p. 17.

Enterprise Risk Management was the fourth area the survey covered. COSO published the Enterprise Risk Management Integrated Framework in September 2004.

COSO defines Enterprise Risk Management (ERM) as:

A process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity objectives. (COSO, 2004, p. 2)

ERM has eight components including the internal environment, which is also the control environment, objective setting, internal and external events, risk assessment, risk response, control activities, information and communications, and monitoring. COSO's descriptions of the eight components of ERM are shown in Table 6 (COSO, 2004).

Table 6

Enterprise Risk Management

ERM Component	Description
Internal Environment	The internal environment relates to the organization's culture, its ethical values, the environment in which it operates, and its risk "appetite".
Objectives Setting	Objective setting concerns the process that management uses to sets its objectives. The objectives should align with the organization's mission, and be consistent with its risk appetite.
Events Identification	An organization sets its objectives but they are affected by internal and external events (I.e., events identification). Events present opportunities and risks that affect the organization's achievements of its objectives.
Risk Assessment	Risk assessment is a key component. Organizations must identify risks, assess them and find ways to manage them
Risk Response	Management responds to risks (i.e. risk response). It might decide to accept them, avoid them and/or finds ways to manage them.

Table 6 (continued)

ERM Component	Description
Control Activities	Control activities are the policies and procedures that the organization establishes to help make sure that it responds to risks as intended.
Information and Communications	Information and communication concerns the way that the right information is identified and then communicated to the people in the organization who needs it. Communications must flow down, across and up the organization for it to be effective.
Monitoring	The risk management process must be monitored through ongoing activities or periodically or both, and corrective actions must be taken when necessary.

The NACUBO survey indicated 49% of public colleges and universities and 31% of independent institutions use ERM techniques. The respondents also indicated a comprehensive risk assessment would be too expensive and too much to take on. Table 6 shows the results of the survey regarding the use of ERM in higher education.

Table 7

Use of Enterprise Risk Management in Higher Education

Question	How Many Institutions
Have universities designated an individual to be responsible for risk management/compliance?	Majority
If this person is other than the internal auditor, is there a formal coordination strategy with internal audit in place?	Some
Has the university risk management function obtained information from the external auditor concerning its views of risk to the university?	Some
Has the designated person either conducted or coordinated the performance of an entity-wide risk assessment within the past 18 months?	Some
Does the person report periodically to the audit committee?	Many
Is there a formal strategy to communicate risks assessed as significant to other board committee and or the board as a whole?	Few

Table 7 (continued)

Question	How Many Institutions
Has the result of the updated risk assessment been considered in determining the resources available and the audit plan of the internal audit function?	Few
Is there a plan in place to make enterprise-risk management assessment and response a sustainable process as compared to a project conducted periodically?	Few

Note. Adapted from NACUBO, 2005, p. 24.

One of the recommendations of the NACUBO 2003 Advisory Report is that colleges and universities establish whistleblowing policies. Whistleblowing is an Internal Control tool and practice used by for-profit and non-profit entities to report wrongdoings without the source of the report identifying the reporter (Eaton & Akers 2007).

Internal audit as a function for Internal Control. Another Internal Control tool for-profit as well as non-profit entities, including colleges and universities, use to monitor the effectiveness of their Internal Controls is their internal audit departments. “Internal auditing is part of the university’s quality assurance mechanism as it is responsible for verifying that controls, the checks and balances of the system are in place and are effective” (Fischer, 2005, p. 496). To effectively perform their functions, internal auditors, especially the Chief Audit Executives (CAE) should have the requisite training and experience.

Harrington (2004) proposed some specific qualifications a CAE should have. Some of the qualifications noted are undergraduate degree in accounting, 5-15 years of internal auditing experience, Certified Public Accountant (CPA) and Certified Internal Auditor (CIA) designations, experience in interacting with upper management, ability to motivate and manage staff of financial professionals, Big Four CPA audit experience, as

well as finance and accounting background, experience in handling Internal Controls and Sarbanes-Oxley requirements, high level of personal and professional ethics, proficiency in accounting and auditing software, and evidence of solid analytical and problem solving skills.

Fischer (2005) conducted a study of the qualifications of CAEs of higher educational institutions using the qualifications proposed by Harrington (2004) that are applicable to higher education. Although Harrington (2004) proposed a CAE has at least an undergraduate degree in accounting, the results of the study by Fischer (2005) show that 51.1% of CAEs hold undergraduate accounting degrees and 48.1% hold MBAs. For CPA and CIA designations, the percentages were 60% and 31%, respectively. For access to upper management, the percentages were 93% for access to the President and 73% for access to the governing board. However, for meeting with the audit committee of the governing board, the results were 20% annually, 23% quarterly, and 23% monthly. The study also indicated 11% of CAEs never met with the audit committee. Finally, all the respondents met the minimum number of years of internal auditing experiences suggested by Harrington (2004). The results of the study indicated a need for more interaction between the audit committees and CAEs at institutions of higher education. More interaction between the audit committee of the governing board may create more visibility for and improve the stature of internal audit functions at institutions of higher education.

To improve Internal Controls of higher education in the 21st century, Chadwick (1999) suggested two best practices of Internal Controls that have been adopted at Boston College. The two practices are 1) joint control self-assessment of an institution's units

and an institution's internal audit department and 2) promotion of positive control environment. Control self-assessment is a technique whereby groups of employees of an organization identify and discuss the control processes and procedures of the organization that work or do not work. The participants analyze the controls that do not work, determine the causes, and offer suggestions for improvement. The process is facilitated usually by internal audit staff. The participants also record the proceedings of the control self-assessment. The participants' input is anonymous to avoid retribution (Dittenhofer, 2001).

Chadwick (1999) reasoned, "control self-assessments (CSA) educates employees on business risks and Internal Controls; empowers employees and increases accountability; and empowers employees with tools for assessing the control environment on their own between audits" (p. 21). Carter (2007) also noted the CSA helps promote knowledge sharing and encourages problem solving across the enterprise. The process helps increase employee awareness of Internal Controls, involvement in Internal Control assessment, and knowledge of the business. Moreover, the knowledge enables employees to understand each other's role and collaboratively find ways to improve the organization.

Promotion of a positive control environment at higher educational institutions can be achieved by internal audit staff conducting seminars and symposium whereby expert guest speakers can make presentations on Internal Control concepts and business ethics to the staff and management of the institutions. Also, according to Chadwick (1999), a positive control environment can also be promoted by internal auditors of a higher

education institution by posting Internal Control topics on their websites for line managers and staff to read.

Finally, to promote a positive control environment, Chadwick (1999) suggested internal audit department of institutions should issue an annual award such as Internal Control Awareness Award. “The award would be issued to the division or individual employee demonstrating the greatest appreciation for Internal Controls, implementing the most effective business practice or possessing the most effective control environment” (p. 39).

Mattie et al. (2004) identified eight variables needed to enhance Internal Control practices at institutions of higher education: assessment, commitment, risk assessment, control environment, control activities, information and communications, monitoring, and sustainability. The eight variables are summarized and explained in Table 8.

Table 8

Enhancing Internal Controls

What Is Needed	What To Do
Assessment	Assess the current state of the institution’s Internal Control Maturity Framework. Include IT controls in the assessment.
Commitment	Make a commitment to having strong controls. Directors and officers must set the appropriate “tone at the top” if they want to enhance the institution’s controls.
Risk Assessment	Identify the institutions most significant risks. Consider reputational risk as well as compliance risks in the most vulnerable areas.
Control Environment	Determine how the institution defines individual accountability and responsibility for key activities at every level, including directors, officers, internal auditors, departmental administrators, and business managers. Make sure that messages are clear and non-contradictory.

Table 8 (continued)

What Is Needed	What To Do
Control Activities	Evaluate the institution's control activities, such as its policies and practices.
Information and Communications	Identify the information needs and develop a communications strategy to get the right information into the hands of employees who need it to carry out their responsibilities. For example, institutional policies must be widely communicated and understood. Individual accountability must be clearly defined.
Monitoring	Establish follow-up procedures, such as staff supervision, to make sure that controls are working as intended. Other examples of monitoring controls are activities of institutional compliance programs and audit committees as well as effective internal and external audit programs.
Sustainability	Reinforce accountability by clearly establishing roles, responsibilities and accountability at all levels. Include mechanisms to reward desired behaviors. Develop ongoing training programs that enhance employees' ability to execute their responsibilities for key controls. Continue to look for ways to streamline, simplify and enhance processes and controls.

Summary. All organizations, for-profit as well as non-profit organizations, such as institutions of higher education, benefit when they adopt strong and best practices of Internal Controls. These benefits are the same irrespective of organization type. Guner (2008); Tackett, Wolf, and Claypool (2005); Tysiac (2012); and Willits (2007) pointed out some benefits about the Internal Control practices of internal auditing, anonymous reporting of wrong-doing, control activities, and monitoring.

Guner (2008) provided that internal auditing, an Internal Control practice, is a key function of governance and provides benefits. Guner (2008) explained:

Without help of a qualified and well resourced internal audit function, it is difficult to see how boards of directors and managers, particularly in large and

multinational enterprises, can fulfill the needs of stakeholders on making meaningful reports about the state of their organization's Internal Control systems. By maintaining a high standard of internal auditing, organizations can strengthen their corporate governance posture in the eyes of the wider stakeholder community. A fully developed Internal Control function is uniquely placed to provide management with insight into many areas that are not yet associated with internal auditing including the view of risk assessment, ethics and corporate governance. Internal audits provide a unique service in that they contribute to the control of integrity of financial information in a market economy. (p. 21)

Tacket et al. (2005) suggested anonymous reporting through a hotline like a whistleblower hotline is beneficial when the hotline is mined by independent experts outside the organization. However, they cautioned that a low-key and individual employee will not report suspicious activity even when a hotline is available. They argued that generally an employee will not utilize a hotline unless the employee is angry or perceives the violations affect them.

Tysiac (2012) also offered that a benefit of control activities, a component of COSO is that control activities help ensure the directives of management are carried out to mitigate risks. Tysiac (2012) also informed that monitoring another component of COSO, provides some ascertainment about the presence and functioning of Internal Control and deficiencies are timely reported, with serious deficiencies reported to the Board and senior management. "Ongoing monitoring ensures that controls are operating effectively and that corrective actions when necessary are promptly taken" (Willits 2007, p. 17).

Research Stream 2: Management's Role in Internal Control

One of the eight components of the ERM framework is the internal environment or control environment. Hayes (2008) pointed out, "the control environment is the most important element of Internal Controls; since it reflects the attitude of top management,

the tone at the top; it has a pervasive effect of all other aspects of Internal Control” (p. 2). Management sets the stage for an effective control environment role of management. Senior management establishes organizational and individual ethics, values, and integrity; leadership philosophy and operating styles; proper direction and attention from organizational leadership; proper assignment of authority and responsibilities by leadership; adequate and proper training and development of people within the organization; and proper organization of the resources the organization has available (Simmons, 1997).

Management’s role in establishing and maintaining an adequate system of Internal Controls. Tsay (2010) stated, “top management is the ultimate authority in establishing a company’s Internal Control system; its attitude toward the Internal Control system affects the degree of employees’ willingness to cooperate and comply with the system” (p. 55). This means for an organization to establish and maintain an adequate system of Internal Control, its senior leadership and management must approve and support the system. A system of Internal Control can only add value to an organization when it has the blessing of the senior management of the organization.

While Buhariwalla (2006) concurred with Tsay (2010) and Hayes (2008), he added that operational management also has roles in ensuring Internal Controls of its organization are in compliance. According to Buhariwalla (2006):

The CEO and other senior managers are responsible to set the tone and business directions of the organization; their competences include leadership and strategic thinking; at the operational management level, management is responsible for converting organizational strategy into business objectives and setting policies; operations management also monitors compliance with policies and regulations. (Buhariwalla, 2006 pp. 81-82)

In addition to Buhariwalla's (2006) focus on the role of senior management, Hayes (2008) pointed out middle management also has an important role in the Internal Control system of its organization, even though the ultimate responsibility of Internal Control rests with top management. The Internal Control responsibilities of middle management include monitoring the activities of the system of Internal Control through observations, reconciliations of accounts, and reviewing records of operations. Middle management personnel are the eyes of top management with respect to the control activities. According to Hayes (2008), middle management is part of the early warning system of the control environment.

Management override of Internal Controls. While management's roles of establishing and maintaining adequate Internal Controls and monitoring them for their organizations are important assigned and expected roles, managers do sometimes carry out unassigned and unexpected acts that harm the very organization they are hired to protect. Management override of Internal Controls is equally important for this study as management's role in establishing and maintaining an adequate system of Internal Controls.

For instance, the Enron debacle of the early 2000s was partly due to management override of Internal Controls (Ferrell & Ferrell, 2011). According to Baggett (2003), there are many companies with excellent Internal Control systems that experience fraud because managers and employees are allowed by corporate culture to look the other way and ignore the controls are being overridden or not being monitored properly. For purposes of this study, management override represents circumvention of Internal Controls by management to allow them to engage in fraudulent activities, making an

organization's financial picture look better than it actually is for management's own personal gains at the expense of the organization.

Ethical leadership, financial incentives, and financial misreporting. Radin (2008) offered some reasons for and methods of management override including dependence of management compensation on internal and external reported earnings; inability to meet statutory financial reporting requirements; internal and external pressure to meet financial reporting goals; control of the accounting function by one strong-minded individual; a pending sale of the business based on historic results; and a personal egotistical need to show good results. According to Radin (2008), examples of methods of management override include charging operating expenses to capital accounts to understate expenses and overstate net earnings; contacting customers, lenders, and creditors to confirm inappropriate amounts; bending accounting principles; and setting up false receivables with supporting billings and customer confirmation. These examples constitute unethical management acts.

Dewey (1902) defined ethics: "Ethics is the science that deals with conduct insofar as it is considered as right or wrong, good or bad" (as cited in Shapiro & Stefkovich, 2005, p. 10). According to Buhariwalla (2006), ethics is a behavioral control and emphasized by the COSO Internal Control framework discussed above.

Chen (2010) pointed out that the recent accounting scandals of Enron, WorldCom, Parmalat, Satyan, and other corporations, as well as the public outcry about excessive executive compensations have brought to light concerns about the connection between ethical leadership, financial incentives, and financial misreporting. Chen (2010) also pointed out the failures were caused by lack of integrity of the leadership of the

corporations. “According to this view these scandals have occurred because the individuals holding leadership roles in the corporations lacked integrity and deliberately misled investors to protect high bonuses linked to companies share price performance” (p. 33). However, the predominant view is:

CEOs bear primary responsibility for financial misreporting not only because they are the ones who need to sign off on financial reports to shareholders but also because they have the power to shape the ethical climate of the organization through their own behavior and through changes in the organizational management systems and procedures. (Chen, 2010, p. 34)

The ethical culture and environment of an organization. The ethical culture and environment of an organization are very critical to the successful implementation of the organization’s system of Internal Control. Management, especially top management of an organization is responsible for establishing, implementing, fostering, and cultivating a strong ethical culture and environment for the organization. Top management is also responsible for ensuring the culture is communicated to all levels of employees throughout the organization. Buhariwalla (2006) postulated that one of the questions that should be asked in assessing controls is “What is the ethical tone at the top?” (p. 83). This means top management should not only foster and cultivate good ethical behavior in their organizations, they should also practice good and acceptable ethical behaviors so all employees can be encouraged to emulate those behaviors.

Kaptein (2011) offered and defined seven dimensions of the ethical culture of organizations:

- 1) Clarity, the extent to which the organization makes ethical expectations such as values, norms, and principles concrete and understandable to employees;
- 2) Congruency of local and senior management, the extent to which managers apply organizational standards to their own behavior;

- 3) Feasibility, the extent to which the organization makes sufficient time, budget equipment, information, and authority available for employees to fulfill their responsibilities;
- 4) Supportability, the extent to which the organization stimulates identification with the ethics of the organization among employees;
- 5) Transparency, the degree to which wrongdoing and its consequences are visible to those who can act upon it internally;
- 6) Discussability, the extent to which ethical issues such as ethical dilemmas and alleged wrongdoings can be discussed internally;
- 7) Sanctionability, the extent to which employees believe that unethical behavior will be punished and ethical behavior will be rewarded. (Kaptein, 2011, pp. 516-520)

The above ethical dimensions are important and critical to the successful implementation of Internal Control systems in organizations. An example of local and senior management congruency is when managers act as role models in the practices of the ethics of the organization and set expectations employees will adhere to the cultural norms and behaviors practiced. An example of transparency is when employees see managers taking action on wrongdoings, employees then report the wrongdoings they see. On the other hand, if there is no transparency related to management's actions on wrongdoings, employees will be less likely to report wrongdoing when they become aware of or witness it.

Research Stream 3: Best Practices of Sarbanes-Oxley (SOX) Act of 2002

Higher educational institutions are not subject to the requirements of SOX but some institutions of higher education have adopted some of the best practices of SOX relevant to Internal Controls that they determined applicable to higher education (Oxholm, 2004; Seaman, 2006). According to Seaman (2006), one of the best practices relevant to Internal Controls some institutions of higher learning have adopted is the annual certification by an institution's chief executive officer and chief financial officer

that the institution has established an adequate and effective system of Internal Control over its operation. This requirement is relevant to Internal Control practices of California community colleges because the involvement of a college chief executive officer and chief financial officer in the Internal Control process of a college may increase the value and importance of Internal Controls to and at the college. It may also increase the chance the control will be effective and adhered to by staff and management of the college.

Best practices for good governance. The Internal Control requirements of Sarbanes-Oxley are used by both public companies and private companies as best practices for good governance (de Mesa Graziano, 2003). According to de Mesa Graziano, best practices of good governance are practices that include the Internal Control framework of the COSO and the Internal Control requirements of SOX. SOX's Internal Control requirements include certifying the effectiveness of a public company's system of Internal Control by the CEO and CFO of the company and establishment of an independent audit committee of the board of directors to oversee the audit functions of the company's board. SOX also mandates a public company have an audit committee, a code of ethics, and annual certification of the Internal Control's effectiveness of the company by its CEO and CFO.

A well-designed code of ethics, if properly implemented, can be valuable to an institution of higher education (Goins et al., 2009). Goins et al. also posited that a properly implemented code of ethics is one communicated to all employees. The requirements and contents of a code of ethics for an institution of higher learning such as a California community college may vary from district to district, but Oxholm (2004) called for the code of ethics of an institution of higher learning to include sanctions for

non-compliance with its requirements by employees and a credible system for investigating and responding to allegations of improper conduct as a best practice. As a best practice, it also called for the code of ethics of an institution of higher learning to include a standing instruction to legal counsel to notify general counsel of the institution, president, and chairman of the audit committee and/or chairman of the board of governors of wrongful conduct material to the institutions (Oxholm, 2004).

A code of ethics is one of the best practices of SOX Internal Control requirements adopted by institutions of higher education. However, Verschoor (2008) cautioned, “merely having a code of ethics or a confidential reporting system isn’t enough; the executives aware of suspicious circumstances must investigate them thoroughly” (p. 3). Verschoor (2002) also stated:

The most critical lesson to be learned from Enron is that best practices on paper are of no consequence if an ethical corporate culture and proper “tone at the top” are lacking; Enron had a code of ethics and corporate conduct but lacked any effective method of ensuring compliance. (Verschoor, 2002, p. 22)

Verschoor (2002) also cited Xerox Corporation, in addition to Enron, as an example of a company having a code of ethics but never enforcing ethical principles of the code throughout its organization. Verschoor (2002) conducted a survey of 100 ethics officers attending an Ethics Board conference and found only 1% of the 100 officers thought ethics training alone at Enron could have prevented the scandals from happening; 80% of the respondents’ companies had ethics help lines for reporting improprieties yet the compliance with their companies’ codes of ethics were ineffective; only 40% of the companies punished their employees for not complying with the values contained in the companies’ codes of ethics; 8% openly promoted violators of the codes; and only 46% of

the companies surveyed had appraisal systems that considered ethics or compliance as an evaluated factor.

The 1% participant response that ethics training alone could have prevented the scandal at Enron shows an organization needs more than training in ethics to foster and sustain good and appropriate ethical behavior at all levels. The top management of the organization does not only have to preach good and appropriate ethical behavior, it has to practice it. Top management has to also create a cultural environment where ethical behavior throughout the organization is normal. The organization must have clear written ethics policy including provisions for punishment for violations as well as procedures for its execution. The policy must be communicated to all levels of employees and management (Chen, 2010; Oxholm, 2004).

The role of the audit committee. Section 302 of SOX requires a public company to have an independent audit committee to help deter management fraud and enhance the integrity of financial reporting. As discussed above and according to Seaman, (2009) a May 2005 survey by the National Association of College and University Business Officers (NACUBO) showed 92% of the institutions responding to the survey had an audit committee or its equivalent; 73% had an audit committee charter; 81% had a financial expert on its audit committee; 43% of the respondents' management periodically reported to the audit committee on Internal Control; and 38% performed risk assessments and documented their key financial controls. This is evidence that some institutions of higher educational institutions have adopted some of the Internal Controls related to SOX best practices. The NACUBO survey results also show the higher

education industry has begun to realize an audit committee is a very important and necessary component and tool of good governance.

Harrast and Mason-Olsen (2007) maintained that an audit committee of an organization is critical and key to ensuring the creditability of financial reporting and reduction of management fraud. According to Harrast and Mason-Olsen (2004), the KPMG Audit Committee Institute surveyed 500 audit committee members from various industries including the financial services industry. The results of the survey showed 70.5% of the audit committee members believed the losses incurred in some of the high-profile financial reporting scandals such as Enron and WorldCom could have been avoided if the committees of those companies were subject to today's SOX audit committee standards. However, Harrast and Mason-Olsen (2007) cautioned that both the overreliance on financial experts by an audit committee, and providing poor quality of information to an audit committee are barriers to the effective functioning of the committee.

Radin (2008) also pointed out the Internal Control systems of many organizations have built-in features such as audit committees, whistleblower hotlines, dealing with only well-known and respected management, and code of conduct, less effective features. He explained that because audit committees sometimes respect management rather than suspect fraud, a number of financial statements have been misstated under situations of oversight by reputable and good audit committees. Radin (2008) also suggested, "this happens because management does not want to tell the board about problems until they have solutions" (p. 12).

For an audit committee to be effective, it has to add value to its organization.

According to David (2009), an effective audit committee focuses on:

Management practices that improve an entity's governance structure; transparency and accountability that improve management accountability and provide third party eye on management; improvement of credibility of the organization; influence to get things done; independence because the members of the committee look at facts and make recommendations; members that are an extension of the governing board of an organization because the committee speaks on audit issues on behalf of the board; and committee members provide quality advice of expertise of various members. (p. 23)

Remediation involves making necessary changes. Remediation is another Internal Control requirement of SOX. Early remediation and disclosures of weaknesses of an Internal Control are also part of the best practices of an effective system of Internal Control (Fargher & Gramling, 2005). Remediation involves taking corrective actions and making necessary changes to an Internal Control system to correct or mitigate weaknesses of the system. Fargher and Gramling (2005) stated, "disclosure of remediation actions provide evidence to shareholders and the financial community that a company is appropriately addressing identified weaknesses in Internal Control" (p. 27). In the case of California community colleges, the shareholders are the taxpayers and local, state, and federal governments provide resources to the colleges and the students who attend the colleges.

Other best practices. There are other best practices that have resulted from the implementation of SOX. According to Jeffrey (2008), three of the best practices are "performing risk assessment; identifying and documenting Internal Control over financial reporting; and continuously testing controls to ensure that they are operating as expected"

(p. 28). Oxholm (2004) also offered 10 best practices of SOX for consideration at institutions of higher education including:

1)background checks for new employees; 2) annual disclosure of conflict of interest required of trustees and employees alike pursuant to the written conflict of interest policy or bylaw provision; 3) code of conduct for employees and trustees that include sanctions for non-compliance and a credible system for investigating and responding to allegations of improper conduct; 4)written whistleblower policy and procedures that provide confidentiality and protect the caller from retaliation;5) periodic risk assessments by outside consultants; 6) annual audit of financial statements by an independent certified public accountant (and if the institution is large enough hire an internal auditor); 7) at least one financial expert on the board; 8) an audit committee of the board, with a written charter specifying its jurisdiction and detailing its authority; 9) a nominating committee of the board to ensure board independence from the president and senior management; and 10) standing instruction to legal counsel to notify general counsel, president, chair of board audit committee and or chair of board of wrongful conduct that is material to the institution. (Oxholm, 2004, p. 375)

Summary

Internal control is an important governing tool management can use to promote and improve the effectiveness and efficiency of operations and organization. It can provide reasonable assurance of accurate and reliable financial and non-financial information to the both internal and external stakeholders of the organization, along with compliance with required laws and regulations. The current surge of Internal Control practices in higher education have been impacted by recent federal laws such as the Sarbanes-Oxley Act of 2002 and the Single Audit Act of 1984 as amended in 1996 and the demand of various stakeholders of higher education for institutions of higher education to be more effective, efficient, accountable. The stakeholders require institutions of higher education to be accountable as equally as private corporations are accountable to their shareholders.

The authority and responsibility for establishing and implementing a system of Internal Controls within an organization is that of the management of the organization. Management has to support the Internal Controls of its organization for the controls to be effective as a tool for achieving the objectives of management. Internal Control is a continuous process; therefore, management must ensure its continuous evaluation and make changes when the evaluation results show changes are needed.

With the limited resources allocated to California community colleges, the management and leadership of the colleges can utilize best practices of Internal Controls as tools to carry out their fiduciary and stewardship responsibilities. These practices may help the colleges efficiently and effectively achieve their missions. Best practices of Internal Control may also help the colleges avoid possible misappropriation of the limited resources allocated to them.

SOX was enacted by the United States Congress as a result of financial and wrongdoings and other unethical acts by management of some corporations like Enron, WorldCom, and Tyco. SOX was also enacted by Congress to strengthen the requirements for financial reporting and Internal Controls over financial reporting for public companies. In addition to accurate financial reporting and adequate Internal Controls, SOX covers management fraud and management override.

Although, the requirements of SOX are not applicable to private companies and non-profit entities such as institutions of higher education, some higher educational institutions have adopted best practices of SOX they deem applicable and necessary to strengthen and improve their financial reporting and Internal Controls over financial reporting and operations. These best practices may be adopted and implemented by

California community colleges that may be experiencing Internal Control deficiencies and poor practices of Internal Controls.

Chapter 3: Research Methodology

Introduction

Review of single-audit reports of some California community colleges evidence Internal Control deficiencies that may hamper the efficiency and effectiveness of their operations. The purpose of this mixed-methods study was to a) explore the Internal Control practices of California community colleges, b) explore the Internal Control roles of the management of the colleges, c) determine how the practices compare to best practices of the SOX and postsecondary institutions of education relevant to Internal Controls, and d) determine how the community colleges have benefited from the Internal Control practices.

The study was an exploratory comparative mixed methods study in that it consisted of in-person interviews and surveys of the leadership of selected community college districts. The in-person interviews were conducted with a convenience sample of District Chancellors (Chancellor), Vice Chancellors for Administration (Chief Financial Officers) and Chief Audit Executives (CAE) from three of the 72 CCC districts. In addition, a survey was administered to the Chief Financial Officers (CFO) and CAEs of the remaining 69 districts.

Four research questions were germane for this study.

1. What are the Internal Control practices of California community colleges?
2. What role does management of California community colleges play in the Internal Control practices of the community colleges?

3. How have California community colleges benefited from their Internal Control practices?
4. How do the Internal Control Practices of California community colleges compare to best practices of higher education and the best practices established in the Sarbanes-Oxley Act (SOX) of 2002?

The questions were explored through an ethnographic case study with an exploratory mixed-methods research design incorporating in-person interviews of a sample of three California community college districts' Chancellors, Chief Financial Officers (CFOs), and Chief Audit Executives (CAEs). A review of key policy and procedure artifacts related to Internal Controls added to the initial data. Subsequently, a survey was created from the analysis of the interviews and conducted with CFOs and CAEs from the remaining 69 California Community College districts. The data collection components are further explained in the research methods section of this chapter.

This chapter contains the descriptions of the research population, sites, methods, rationale, and the ethical considerations of the study. It should be noted the ethical paradigms and considerations of research are important at the beginning and during the research because they are integral and critical parts of negotiating, gaining, and maintaining access to a research site or sites as well as in writing the research report (Creswell, 2007; Maxwell, 2005). For this study, the Institutional Review Board (IRB) requirements of Drexel University guided this research. The three community college districts agreeing to participate in the study accepted the Drexel University IRB approval and did not have additional IRB requirements.

Site and Population

Population

The population parameters of the study were the Chancellors, CFO, and CAEs of the 72 districts in the California community college system. Of those in the 72 districts, the Chancellor, CFO, and CAE, three districts were selected to participate in the study and were interviewed using a standard qualitative questionnaire with open-ended questions (see Appendix A). Based on findings from the interviews, a survey was created and administered via Survey Monkey to the CFOs and CAEs of the 69 remaining districts (see Appendix B).

The Chancellors were interviewed because they have the ultimate management responsibility for the Internal Control practices at their respective districts. The CFOs were either interviewed or surveyed because they are responsible for the design, development, implementation, and monitoring of their districts' systems of Internal Controls. The CAEs of the districts were also either interviewed or surveyed because their functions for the districts include providing consultation in the development and implementation of Internal Controls. Also, the CAEs of the districts are responsible for monitoring and providing feedback on the effectiveness of their districts' Internal Control systems. Additionally, only the CFOs and CAEs were surveyed because the CFOs and CAEs that participated in the qualitative interviews of the study were much more knowledgeable about their districts' Internal Controls than the Chancellors. The profiles of the participants of the qualitative interviews of the three districts are shown in Chapter 4.

Site

The sites of this study are the 72 California community college districts of the California Community College System. The 72 districts include a total of 112 community colleges and educate 2.9 million students annually (CCCCO, 2010). Some districts are single-college campus districts and others are multi-college campus districts with two or more college campuses.

Each district has a designated geographic service area within the state and offers classes only in the service area of the district. There are 50 single-campus districts and 22 multi-campus districts. The multi-campus districts are headed by a Chancellor assisted by several Vice Chancellors with responsibilities for leading and managing the district. The Vice Chancellor of Administration for each multi-college campus district serves as the CFO of the district.

For the purposes of this study, the California community college system was divided into three regions: Southern, Central, and Northern California. Southern California covers the areas of California from the southern border of California in San Diego County to the north end of Kern County; Central California covers the area from north end of Kern County to the south end of San Joaquin County; and Northern California covers the areas beginning from the south end of San Joaquin County to the California-Oregon border. Of the three districts participating in the study, one district was located in Central California and the other two districts were in Northern California.

Each of the three districts is headed by a Chancellor. The Chancellor reports to an elected Board of Trustees (Board), and the Board of each district oversees the District's affairs and management. The number of board members of the districts range from five

to seven members including a student member elected by the students of the district. The student member of each Board serves for a period of one year. Reporting to the Chancellor at each District headquarters are Vice Chancellors for functional areas of the district, including Instructional/Educational Services, Administration, Student Services/Affairs, Information Technology, Economic Development, etc. As stated earlier, the Vice Chancellor for Administration of each district is the CFO of the district.

Site access. Seven districts were invited to participate in this study. A letter was sent to the office of the Chancellor of each district by the researcher (see Appendix C). The letter included the purpose of the study and a statement that the information obtained and the identities of the districts and participants interviewed and surveyed would be kept strictly confidential and individual anonymity would be maintained. Three of the seven districts agreed to participate in the study and, thus, a letter of agreement for site access was provided by each Chancellor to the researcher.

Research Design and Rationale

An exploratory mixed-methods research design was used for this study. “The purpose of an exploratory mixed methods design is the procedure of first gathering qualitative data to explore a phenomenon and then collecting the quantitative data to explain the relationship found in the qualitative data” (Creswell, 2008, p. 561). This mixed-methods research design is used by researchers when existing instruments, variables, and measures may not be available and qualitative data is emphasized (Creswell, 2008); the results from the quantitative data are intended to refine and extend the qualitative findings.

The qualitative portion of this mixed-methods research design framed an ethnographic case study. The study was ethnographic because it was intended to identify the beliefs, values, and attitudes that structure the behavior patterns of CCCs with respect to their Internal Control practices (Merriam, 2009). In addition, as a case study, the focus was on an in-depth exploration of a bounded process, the Internal Control practices of CCCs (Creswell, 2008).

For the quantitative portion of the study, the research design was a cross-sectional survey design. The survey sought to verify the results from the qualitative portion of the study. According to Creswell (2008), “a cross-sectional study can examine current attitudes, beliefs, opinions or practices” (p. 389). Because the design of the study was an exploratory mixed-methods design, it started with collecting and analyzing qualitative information from the research participants using open-ended questions. The findings from the qualitative data analysis were then used to formulate the questions for the quantitative portion of the study.

Research Methods

The data for this study was initially collected through in-person interviews and by reviewing policies and procedures of the three districts. The Chancellor, CFO, and CAE of each of three selected sites were interviewed separately in person in a semi-structured conversation using open-ended questions (see Appendix A). The length of time for each interview was approximately one hour. Using the analysis of the data and artifacts, a survey was created and distributed to the CFOs and CAEs of the remaining 69 Districts. The survey instrument was designed by the researcher for the study and is in Appendix B.

Stages of Data Collection

The data collection stage for this study started with the design of a qualitative questionnaire for the study. The questionnaire was then reviewed and approved by the dissertation committee for content, clarity, and relevance to the general research questions and problem statement for the study. The researcher used the approved questionnaire to conduct separate in-person interviews with the Chancellors, CFOs, and CAEs at three multi-campus districts.

Based on the analysis and findings from the qualitative interviews, the survey instrument for the quantitative portion of the study was designed. The survey instrument was also reviewed and approved by the Dissertation Committee for content validity and proper design prior to administering the survey via Survey Monkey to the CFOs and CAEs of the 69 districts.

Participant Selection

The researcher requested and received a list of the 72 California community college districts from the California Community College Chancellor's office. A convenience sample of seven districts was selected from the list of 72 districts. The chancellors of the seven selected districts were sent letters requesting their districts to participate in the qualitative portion of the study. Three of the seven districts agreed to participate in the study. After the three districts agreed to participate in the study, the Chancellor, CFO, and CAE of each of the three districts were sent personal letters of invitation to participate in one-on-one in-person interviews with the researcher (see Appendix D).

In addition, all CFOs and CAEs of the remaining 69 districts were selected for a survey for the quantitative portion of data collection for the study. The letters of invitation (see Appendix E) requesting their participation in the study were sent to them individually with the survey questionnaire link. It should be noted that only 16 of the 72 districts have internal audit functions. The CAEs of three of these 16 districts were selected to participate in the in-persons interviews. The remaining 13 districts were invited to participate in the survey portion of the study.

Data Collection Method

Four methods of data collection, interviews, field notes, survey, and artifacts (Internal Control policies and related administrative procedures) were utilized for the study. An interview protocol with 16 open-ended questions was used to conduct the in-person interviews and collect data for the qualitative portion of the study. Field notes were taken by the researcher as a second data collection method. The third data collection method was a survey instrument electronically administered to the participants using SurveyMonkey.com. The fourth and final data collection method was a review of the artifacts including relevant Internal Control policies and procedures of the three districts participating in the qualitative portion of the study.

Interviews.

Instrumentation. A questionnaire protocol with 16 open-ended questions was used to collect the data for the qualitative portion of the study. The questionnaire was submitted to the dissertation committee for review and approval before the researcher used it to conduct the interviews. The questionnaire was tested for content validity through the review of the dissertation committee. Ravid (2011) stated, “content validity

describes how well an instrument measures a representative sample of behaviors, and content domain about which inferences are to be made” (p. 204).

Identification and invitation. A list of California Community College Districts was obtained from the CCCCO. From the list, a convenience sample of seven districts was selected to participate in the study. A site access letter was written to the Chancellor of each of the seven districts for access to conduct interviews at the district with the Chancellor, CFO, and CAE of the districts. Three of the seven districts consented to participate in the study by a letter of consent from the Chancellor of each district to the researcher. By email, the researcher subsequently requested the Chancellor, CFO, and CAE of each of the three districts to participate in the qualitative in-person interviews of the study after the Chancellors of the districts consented for their districts to participate in the study.

Data collection. The interviews were conducted at the headquarters office of each district in the private offices of the participants. All the interviews were audio-recorded. Follow-up questions were sent to some of the participants for clarification of their responses from the initial interviews.

Data analysis. The recorded data from the interviews were transcribed. After the transcription of each set of interviews, the transcribed data were preliminarily explored to see if the data made sense. “A transcription is the process of converting audiotape recordings of field notes into text data” (Creswell, 2008, p. 246). The transcribed information was hand-coded using the participants’ own words; Merriam (2009) defined coding as the “process of making notation next to bits of data that strike you as potentially relevant for answering your research questions...Assigning codes to a piece of

data is the way you begin constructing categories” (pp. 178-179). “Coding is the process of segmenting and labeling text to form descriptions and broad themes in the data” (Creswell, 2008, p. 251).

Open coding was used to code the transcribed data. According to Bloomberg and Volpe (2007), open coding is “a grounded theory concept where the descriptors emerged from the data” (p. 102). The transcribed data were hand-coded twice seeking themes and patterns using open coding. The researcher completed the codings one week apart from each other. The coded data was analyzed to determine patterns and themes. The themes developed from the analysis of the data were summarized into data tables by interview questions, districts, and participants (see Appendix F for sample table).

Field notes.

Instrumentation. A copy of the questionnaire for each qualitative interview was used to take notes of the responses of each of the participants and of observations during the interviews. Notes were also taken of responses to follow-up questions.

Identification and invitation. A request was made to interview participants to allow the researcher to take field notes during the in-person interviews of the Chancellors, CFOs, and CAEs. Consents were obtained.

Data collection. Field notes of the responses of the participant were hand-written during each interview. The notes were edited and rewritten for clarity and accuracy immediately after each interview to assure inclusion of the observations.

Data analysis. The summarized field notes of all the interviews were incorporated into the transcriptions of the interviews, coded, and analyzed for themes and patterns.

Survey.

Instrumentation. A survey instrument with closed-ended response alternatives was constructed and used for the quantitative portion of the data collection for the study. The survey instrument was not an existing instrument. The survey instrument was constructed based on themes and patterns identified from analysis of the responses from the interviews. Johnson and Christensen (2005) described a questionnaire as “a self-report data collection instrument filled out by research participants” (p. 170). The survey instrument was reviewed and approved for content validity by the dissertation committee. The design of the survey instrument was also reviewed by a member of the committee who had expertise in survey design.

Identification and invitation. The identification process for the survey was the same as the interviews. The CFOs of remaining 69 districts and CAEs from 13 of the 16 districts with internal audit functions/departments were surveyed. The purpose of the survey was to use the results of the survey to support and/or refine the findings of the qualitative portion of the study.

Data collection. A survey instrument with 44 close-ended questions was designed and administered to the CFO and CAE of each of the 69 districts. To ensure an adequate survey response rate, all participants were contacted by emails two weeks after the survey was initially administered to encourage participants to respond if they had not responded. Over half the survey participants were also contacted personally and requested to respond. After receiving the questionnaires from the CFOs and CAEs, the responses were preliminarily reviewed to see if the questions were answered appropriately.

Data analysis. The survey responses were summarized using descriptive statistics (tables, percentages, etc.). According to Ravid (2011), “descriptive statistics classify, organize, and summarize numerical data about a particular group of observations” (p. 29). In descriptive statistics, the result from a sample is not generalized to the population from which a sample is selected for a study. This is because the sample of the study is not large enough for generalization.

Artifacts. The researcher requested access to the artifacts during the interviews with the Chancellors, CFOs, and CAEs.

Instrumentation. An instrument was not used to gather data on the Internal Control policies and procedures. The policies and procedures were requested from the participants during the in-person interviews. The documents were requested of only the three districts selected for the qualitative interviews.

Identification and invitation. The interview participants were requested to provide copies of or access to the policies and procedures of their districts during the interviews.

Data collection. The Internal Control policies and procedures of each district were obtained from the website of each of the three districts to obtain an understanding of the Internal Control system of the district. The organizational charts of the districts were reviewed to understand the organizational hierarchy of each of the districts in relationship to the district’s system of Internal Controls. Information about each district’s system of Internal Control pertinent to the study was noted. The districts’ policies and procedures on business services, human resources, student services, instructional services, facilities management, activities of the Board of Trustees, etc. were reviewed. Also, artifacts such

as the Budget and Accounting Manual (CCCCO, 2000) and Contracted District Audit Manual of the California Community College Chancellor's Office were reviewed (CCCCO, 2012).

Data analysis. The documented information about each of the three districts' Internal Control policies and procedures were analyzed for themes. The themes from the analysis were compared to the applicable themes developed from the interviews to determine if the policies and procedures were congruent with the district's practices based on responses from the interviews. The information was also analyzed to determine how the policies and procedures compared to related best practices of SOX and higher education.

Ethical Considerations

A researcher's ethical behavior is very critical to the success of every research project irrespective of the research type (social, medical, behavioral, or educational). The identities of the participants and their community college districts were kept strictly confidential throughout this dissertation. All IRB requirements of Drexel University were strictly followed. To protect the rights of the participants of the study, the selected community college districts and research participants for the study were informed in detail about the purpose of the study, how the results of the study would be used, and any known risks associated with the study at the beginning of the study. They formally consented to participate.

All data collected for the study was saved on a thumb drive and access to the data was protected by a password to safeguard the data. Only the researcher had access to the data during and after the study was completed. Pseudonyms were created for the

participating individuals and districts. The researcher is committed to maintaining the data from the interviews, field notes, surveys, and artifacts in a locked cabinet for three years after the final approval of the dissertation.

Chapter 4: Findings and Results

This study was an exploratory ethnographic comparative case study that incorporated mixed methods utilizing in-person qualitative interviews followed by a quantitative survey to confirm findings from the interviews. Artifacts were reviewed, including the California Education Code and Government Code sections; California Community Colleges Chancellor's Office Compliance Requirements, as documented in its Budget and Accounting Manual (BAM) and Contracted District Audit Manual (CDAM); Federal Compliance Requirements (A-133); and the Board approved policies and related administrative procedures of each of the three districts that participated in the qualitative interviews. The triangulation of the interviews with survey findings and artifact reviews assure a valid data set to support the conclusions. Additionally, the researcher made field notes of the interviewees' responses and observations of the interviewees during the interviews as the fourth method of data collection for the study.

The study investigated the following four research questions:

1. What are the Internal Control practices of California community colleges?
2. What role does management of California community colleges play in the Internal Control practices of the community colleges?
3. How have California community colleges benefited from their Internal Control practices?
4. How do the Internal Control Practices of California community colleges compare to best practices of higher education and the best practices established in the Sarbanes-Oxley Act (SOX) of 2002?

To answer the research questions, the researcher conducted personal interviews ranging from 45-60 minutes in length with the Chancellor, Vice Chancellor for Administrative Services (CFO), and the Chief Audit Executives (CAE) at three of the 72 California community college districts within the California community college system. The interviews were conducted at the headquarters of each of the three districts in the participants' offices. Table 9 provides an introduction to the nine participants and introduces identification used throughout this chapter.

Table 9

Interview Participants

Pseudonym	Role, District Description
Nora Blue	Chancellor, Blue Community College District
Ann Green	Chancellor, Green Community College District
Robert Monroom	Chancellor, Monroom Community College District
Pete Nma	CFO, Blue Community College District
Sarah Wuh	CFO, Green Community College District
Donald Kun	CFO, Monroom Community College District
Felicia Laye	CAE, Blue Community College District
Pauline Boyd	CAE, Green Community College District
Rene Pepps	CAE, Monroom Community College District

Based on the results of the qualitative interviews, a survey questionnaire consisting of 44 questions with predetermined answers was designed. The questions for the survey instrument were based on the coding and analysis of information provided from interviews with the Chancellors, CFOs, and CAEs. The survey was distributed to 69 CFOs and 13 CAEs of the remaining 69 districts. The survey was administered only

to CFOs and CAEs of these districts after analysis of interviews indicated that CFOs and CAEs had more knowledge about the specific information of their districts' Internal Control practices than Chancellors. Similarly, analysis of the field notes of the researcher's observations during interviews suggested the chancellors interviewed were less knowledgeable about their districts' Internal Control practices than CFOs and CAEs. Nineteen (23.2%) of the 82 possible participants completed the survey, and 14 (20%) CFOs of the 69 districts participated in the survey portion of the study. Also, five (38%) Internal Auditors of the 13 districts that have Internal Auditors participated in the survey.

This chapter has three components: findings, results, and a summary. The findings were based on frequency distribution counts of coded summarized categories of information from interviews, follow-up questions, artifacts, and field notes of observations and subsequent survey. The results section offers a synthesis and correlation of the findings and reflects on how these findings relate to prior research introduced in the three streams of theory, research, and practice discussed in Chapter 2.

Findings

Seven findings emerged from the analysis and the synthesis of the aggregated information gathered through all methods. Table 10 offers a summative view of these findings.

Table 10

Summary of Research Findings

FINDINGS	
1	Internal Control practices of California community colleges mainly consist of the college districts' control activities (Board policies and related administrative procedures), shared governance, conflict of interest policies, and code of ethics policies.
2	The majority of study participants identified three roles their community colleges' management played in the Internal Control practices of the colleges: a) developing of Internal Control policies and procedures; b) correcting of Internal Control deficiencies; and c) monitoring implementation of Internal Control practices;
3	Two benefits were identified by a majority of the study's participants as benefits associated with the Internal Control practices of their colleges: a) integrity and b) accountability.
4	The Internal Control practices at California community colleges the participants identified as active practices adopted by their college districts are similar to most of the best practices of Internal Controls of higher education and several of the best practices identified in SOX recommended for higher education.
5	The Board of Trustees of each California community college district has oversight authority over the districts' Internal Control Practices.
6	Internal Control practices of California community colleges are mainly guided by the California Community Colleges Chancellor's Office compliance requirements and California Education Code.
7	Internal audit, communicating Internal Control requirements to staff by management, monitoring of Internal Controls by management, corrective actions on Internal Control deficiencies by management, and important and recommended best practices of Internal Controls of higher education are marginalized at a majority of the California community college districts that participated in the study.

Internal Control Practices of the Colleges

The analysis and synthesis of the aggregated information from the participants for this study show California community colleges' Internal Control practices primarily consist of the college districts' control activities (Board policies and related administrative procedures), shared governance, conflict of interest policies, code of ethics

policies, and whistleblower policies. However, other practices, such as risk assessments, internal audits, monitoring of Internal Controls by management, and corrective actions on Internal Control deficiencies are not adopted at some colleges. Overall, the majority of participants in the study stated the Internal Control practices of their community colleges consisted mainly of control activities (Board policies and administrative procedures), conflict of interest policies, code of ethics policies, shared governance, and whistleblower policies. Ninety-three percent (93%), 26 of the 28 participants indicated the Internal Control practices of their college district consisted of control activities. Twenty-one (75%) and 20 (71%), respectively, indicated their districts' practices consisted of conflict of interest policies and code of ethics policies. Nineteen (68%), 18 (64%), and 17 (61%) indicated that shared governance, risk assessment, and whistleblower policies were components of their college districts' Internal Control practices. The number of participants indicating the Internal Control practices of their districts included monitoring of control activities by management was 50% and 36% included Internal Audit.

When asked to describe the Internal Control practices of their college districts, three participants offered their thoughts. "Each one of the divisions has Internal Controls for each of its functions. They are very specific to the divisions and they cover all business processes for the division" (Pauline Boyd). Nora Blue also explained:

We have Board policies with the procedures that cover everything related to each policy. So this is authorized person policy and this procedure is 9.16 just to show you how it works. And everything we do is codified this way. This is just the business services one. We have the human resources one. We have the instructions one.

Felicia Laye similarly noted, “Some of the practices that we have, are risk assessment, monitoring of the practices at campus level and also at the district level. We monitor the practices to ensure that they are implemented on a regular basis.”

The participants were asked about how their districts communicated their Internal Control practices to employees of the districts. Eight of the nine interview participants (89%) indicated the practices of their college districts are communicated to all employees of their college districts mainly through the districts’ websites. Donald Kun explained, “Board policies are posted after they go through the process and are approved by the Board. They are posted on the website.” Felicia Laye also commented, “They are on the web. They are on the website. Everybody has access to the web.” The majority – six of the nine interviewed – (67%) also indicated that training for Internal Control practices at their college districts was provided to employees on an “as needed” basis.

Conversely only seven (37%) of the 19 survey participants indicated training of their college districts’ Internal Control practices was provided to employees on an “as needed” basis. Four (21%) of 19 survey participants indicated Internal Control training was provided at their college districts annually. Eight (42%) of the 19 participants did not respond to the question.

As mentioned previously, interview coding and analysis provided the basis for the survey design (Appendix C). Data from interviews and surveys were sometimes in alignment but other times provided countering information. Table 11 provides an overview of the interview, survey, and total responses related to Internal Control practices.

Table 11

Participants' Response Frequency Distribution

	In-Person Interviews		Survey		Total	
Internal Control Practice	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent
Control activities (Board approved policies administrative procedures)	9	100	17	96%	26	93%
Conflict of Interest Policies	2	22%	19	100%	21	75%
Code Ethics policies	1	11%	19	100%	20	71%
Shared Governance	3	33%	16	83%	19	68%
Risk Assessment	6	67%	12	42%	18	64%
Whistleblower Policies	2	22%	15	79%	17	61%
Monitoring by Management	3	33%	11	83%	14	50%
Internal Audits	2	22%	8	42%	10	36%
Number of Participants	9		19		28	

Internal Control Roles of California Community College Management

Study participants were asked to identify the Internal Control roles that were management's responsibility. The findings indicated that members of management in the college districts assumed seven Internal Control roles in the Internal Control practices of their districts. They included a) developing Internal Control policies and procedures, b) approving Internal Control procedures, c) communicating Internal Control requirements to their staff, d) providing Internal control training to staffs, e) monitoring implementation of Internal Control practices, f) correcting internal Control deficiencies, and g) selecting the external auditors for the college districts. However, only 18 (64%) of 28 participants indicated the Internal Control roles of their community colleges' management were concerned with developing Internal Control activities (policies and

procedures). Sixteen (57%) of 28 indicated correcting Internal Control deficiencies and monitoring implementation of Internal controls were the responsibilities their districts' management had in the Internal Control practices of their districts. Fifty percent (14) of the participants indicated the roles of their college districts' management were communicating Internal Control requirements to staff, implementing Internal Control practices, providing Internal Control training to staffs, and correcting Internal Control deficiencies. Selecting external auditors was indicated by 42% (8) of the participants as an Internal Control role of their colleges' management.

The frequency distribution of the participants' responses when asked, "At your community college district, what is management's role in the Internal Control practices of the district"? is shown in Table 12. In the interview setting, Rene Pepps noted, "Well, we are the first level of creating and implementing the Internal Controls." Felicia Laye further explained:

I think that they are the enforcer of Internal Controls of the district. They have to ensure that our Internal Controls are effective. They are the ones that effect the Internal Controls that we have in place to make sure that they are sufficient or not.

Finally, Nora Blue said, "We make sure that Internal Controls are in sync. That's our role. We become Internal Controllers ourselves through the process."

Less than half (44%) identified "approval of procedures" as the role of management at their college districts. "Administrative procedures do not require Board approval. They only require Chancellor's approval" (Donald Kun). Nora Blue also explained, "The Governing Board does not look at the procedures. Procedures are detailed. I [the Chancellor] approve the procedures."

One-third (three of nine) of the interview participants stated management roles were providing Internal Control training to staff and monitoring Internal Control practices. “Each supervisor trains his or her own staff” (Pauline Boyd). “I personally do training at specific venues for faculty, for leadership teams, for classified staff, for the Board” (Sarah Wuh).

Two (22%) interview participants noted the Internal Control roles of management at their college districts were for the correction of Internal Control deficiencies, communication of Internal Control requirements to their staff, and selection of external auditors for the college districts. Felicia Laye described the Internal Control role of the management of her college district, “They are the ones that are communicating them down to the appropriate personnel.” Donald Kun also described the Internal Control roles of management of his district:

So, I think that in general it’s one that is kind of setting the bar in terms of what other employees should be doing in terms of Internal Controls in adhering to them and in complying with them. But also one that is kind of as an auditor if you will, perhaps an observer to make sure the employees are following and if they are not, then there is some action and something taken in terms of corrective action to make sure that the deficiencies have been noted or they are addressed timely and adequately.

In contrast to the interview participants, as shown in Table 12, 13 (68%) of the 19 survey participants indicated the Internal Control roles of management of their community college districts are developing Internal Control policies and procedures and correcting Internal Control deficiencies. Twelve (63%) indicated the roles are communicating Internal Control requirements to staff and implementing Internal Control requirements. Eleven (58%) of the participants indicated monitoring implementation of Internal Controls and approving Internal Control procedures as the Internal Control roles

of the management of their college districts. Ten survey participants (53%) indicated providing training to staff was the role of the management of their college districts, and eight (42%) identified the selection of external auditors for their college districts as the role of their college districts' management.

Table 12

Internal Control Roles of Management

	In-Person Interviews		Survey		Total	
Role of Management	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent
Development of Internal Control activities (policies and procedures)	5	56%	13	68%	18	64%
Correction Internal Control deficiencies	3	33%	13	68%	16	57%
Monitor implementation of Internal Controls	5	56%	11	58%	16	57%
Communicate Internal Control requirements to their staff	2	22%	12	63%	14	50%
Implement Internal Control practices	2	22%	12	63%	14	50%
Approve Internal Control procedures	4	44%	11	58%	14	50%
Provide Internal control training to staff	3	33%	10	53%	14	50%
Select external auditors (Independent Certified Public Accountants) for the districts.	2	22%	8	42%	10	36%
Total Participants	9		19		28	

Comparison of College Districts' Internal Control Practices with Best Practices of Higher Education and SOX

The Internal Control practices at California community colleges the participants identified as active practices adopted by their college districts, depicted in Tables 11 and 12, are similar to most of the best practices of Internal Controls of higher education and several of the best practices identified in SOX recommended for higher education. However, three recommended best practices of higher education are not adopted at the college districts that participated in the study. They were a) certification by the CEO, CFO, and functional managers that Internal Controls of their organizations are in place and are effective; b) control-self assessment; and c) promotion of the control environment by Internal Audit. In translating titles used in SOX, in the case of the community college district, the CEO would be the Chancellor/President and the CFO would be the Vice Chancellor/Vice President of Administrative Services or Business Services of a college district and Presidents and Vice Presidents of Administrative Services, respectively, and the functional managers would be the Vice Presidents of Instruction, Vice Presidents of Student Services, Deans, program managers, and others.

The interview participants were asked to describe the Internal Control practices of their community college districts. The responses were coded, analyzed, and categorized. The results of the categories were compared to the best practices of Internal Controls represented by the literature review of the research streams (Internal Control Practices of Higher education and Best Practices of SOX). As depicted in Table 13 and discussed earlier, other best practices such as internal audit, communicating Internal Control requirements to staff by management, management monitoring Internal Controls,

providing training to staff by management, and corrective actions on Internal Control deficiencies by management were not indicated as part of the Internal Control practices at most of the college districts.

Table 13

Internal Control Practices Compared to Best Practices of Higher Education and SOX

Internal Control Practice	Total Response Count	Overall Response Percent of adoption of Practice	Is Practice similar to the Best Practice of Higher Education or SOX?	Reference: SOX/Higher Education Best Practices
Control activities (Board Policies and administrative procedures)	26	93%	YES	Stumpf (1943); Buhariwalla (2006); Tsay (2010)
Conflict of Interest Policies	21	75%	YES	Oxholm III (2004); Sarbane-Oxley (2002)
Code of Ethics	20	71%	YES	NACUBO (2003); Chen (2010); Goins et al. (2009)
Shared Governance	19	68%	YES	Miller & Miles (2008); Lester & Lukas (2008)
Risk Assessment	18	64%	YES	NACUBO (2003 & 2005); Jeffrey (2008)
Whistle Blower Policies	17	61%	YES	Eaton & Akers (2007)
Monitoring of controls by management	14	50%	YES	Mattie, Cassidy, & Hanley (2004); Tysiac (2012)
Internal Audit	8	36%	YES	Fischer & Montondon (2007); Guner (2008)
Total Number of Participants	28			

None of the participants indicated their college districts had adopted control self-assessment, promotion of the control environment or certification of Internal Controls by senior and middle management. In a community college district, the Chancellor/President, the Vice Chancellor for Administration, and Vice Chancellors of other functional areas of the district, as well as the vice presidents, deans, directors of individual colleges of the district in a case of a multi-campus district should be the ones

who certify the adequacy and effectiveness of the Internal Controls of the district.

According to the data, this is not occurring.

Benefits Associated with the College Districts' Internal Control Practices

As noted in Table 14, the participants of the study identified eight benefits associated with their college districts' Internal Control practices: a) improved integrity, b) more accountability, c) operational efficiency, d) operational effectiveness, e) more transparency, f) accuracy of reports, g) ability to pass accreditation, and h) timely preparation and approval of budgets. The participants were asked to indicate the benefits of the Internal Control practices of their college districts. As shown in Table 14, 21 (75%) and 19 (68%) of 28 participants, respectively, indicated that improved integrity and accountability are the benefits associated with their college districts' Internal Control practices.

Table 14

Benefits Associated with Colleges' Practices

	In-Person Interviews		Survey		Total	
Framework	Response Count	Response Percent	Response Count	Response Percent	Total Response Count	Total Response Percent
Improved Integrity of District	4	44%	17	89%	21	75%
More Accountability	2	22%	17	89%	19	68%
Effectiveness of Operation	1	11%	12	63%	13	46%
Efficiency of operation	2	22%	11	58%	13	46%
Accuracy of Reports	3	33%	10	53%	13	46%
Pass Accreditation	1	11%	10	53%	11	39%
More transparency	1	11%	10	53%	11	39%
Timely Preparation and Approval of Budgets	1	11%	2	11%	3	11%
Total Participants	9		19		28	

Slightly less than half (46%) indicated that effectiveness of operations, efficiency of operations, and accuracy of reports of their districts are the benefits associated with their districts' practices. Similarly, 11 (39%) indicated passing accreditation and more transparency are the benefits of their districts' practices. Only three (11%) indicated the associated benefits of their college districts' practices are timely preparation and approval of their college districts' budgets.

The benefits noted by the survey participants were those noted by the interview participants in three districts. An overwhelming majority (89%) of the survey participants indicated improved integrity and more accountability of their districts are the benefits of their districts' practices compared to 44% for integrity and 22% for more accountability for the interview participants. Sixty-three percent (63%) indicated benefits associated with their districts' practices included effectiveness of operations compared to 11% for the interviewees. Just over half (53%) the survey participants stated accuracy of reports, transparency of operations, and passing of accreditation by their districts are the benefits for their college districts compared to 33% for accuracy of reports and 11% for transparency of operation and passing of accreditation for the interview participants.

For efficiency of operations, the percentage was 58% for the survey participants compared to 22% for the interview participants. The percentage for timely preparation and approval of budgets as benefits was only 11% for both survey and interview participants. For the nine interview participants, four (44%) identified integrity of their districts as the benefit of their districts' practices. Nora Blue and Sarah Wuh described integrity as a benefit of their districts' practices, "Well it benefits the district because it keeps us clean, responsible; makes sure that we have best practices that have integrity

and honesty, and it helps to prevent fraud” (Nora Blue). Sarah Wuh stated, “They help prevent fraud. They help to protect the integrity of the institutions.”

Three (33%) interview participants identified accuracy of the reports as a benefit of their districts’ practices. Felicia Laye and Pauline Bubble described accuracy of reporting as a benefit of their districts’ practices: “It helps us ensure accuracy of reporting” (Felicia Laye). “These practices make our reports accurate” (Pauline Boyd). Two (22%) of those interviewed stated the benefits of their colleges’ practices were increased efficiency of operations and more accountability. As shared by Donald Kun, “And also it helps us the district to become more functionally and operationally efficient and productive.”

Effectiveness of operation, passing of accreditation, more transparency, and timely preparation and approval of budgets were each identified by only one of the nine interviewees as benefits of their districts’ practices. Ann Green described transparency as a benefit of her district’s Internal Control practices:

To me I just think the bottom line of all of this is the best Internal Control policy is to be open and transparent about how you operate your funds and letting people know what you are doing. The best Internal Control is to be transparent. This is why we have open Board meetings and that’s why we operate the way we do.

Rene Pepps also stated: “Well right now the benefit of any Internal Control practices is the fact that our Internal Control Practices have become stronger. So our accreditation is in the warning stage instead of the probationer stage.”

The Frameworks of the Districts’ Internal Control Practices

The Internal Control practices of college districts are mainly guided by five frameworks: a) California Community Colleges Chancellor’s (CCCC) Office compliance

requirements, b) each community college district's approved Board policies, c) Federal compliance requirements, d) California Education Code, and d) California Government Code. The CCCCCO's compliance requirements are documented in various manuals by functions and services of the college districts. For example, three of the manuals are the Contracted District Audit Manual (CDAM), which contains standards and compliance requirements for audits; the Budget and Accounting Manual (BAM) containing accounting and budgeting standards and compliance requirements; and the Student Attendance Accounting Manual (SAAM). For purposes of this study, the CDAM and BAM were used because they contain the Internal Control requirements for all functional areas of community colleges. The authoritative sources (State Education and Government Code sections, OMB Circular A-133 sections, and relevant accounting standards) are cited within the content of the BAM and CDAM. The policy and administrative procedure manuals of the three districts that participated in the qualitative in-person interviews for the study were reviewed to obtain an understanding of how each district applied the compliance requirements of the CCCCCO.

Initially, the interview participants were asked to identify the Internal Control framework(s) their college districts use. Based on the analysis and synthesis of the information obtained from interviews and survey of the study, 21 (75%) participants in the study identified CCCCCO's compliance requirements as their district's framework and 20 (71%) indicated their districts' relied upon Board policies, the State Education Code, and Federal compliance requirements as the frameworks for their districts' Internal Control practices. Eighteen (64%) indicated their districts used State Government Code

as the framework. Only three (11%) of 28 participants indicated their districts used COSO as a framework.

As shown in Table 15, one-third of the interview participants indicated their community college districts' Internal Control practices were guided by the California Community Colleges Chancellor's Office compliance guidelines, Federal compliance requirements, their districts' Board policies, California Code Education Code, and California Education Code. Only one (11%) of those interviewed identified COSO as the framework guiding the Internal Control practices of her district.

Table 15

Internal Control Frameworks

	In-Person Interviews		Survey		Total	
Framework	Response Count	Response Percent	Response Count	Response Percent	Total Response Count	Total Response Percent
CCCC Compliance Guidelines	3	33%	18	95%	21	75%
State Education Code	3	33%	17	89%	20	71%
College District Board Policies	3	33%	17	89%	20	71%
Federal compliance Requirements	3	33%	17	89%	20	71%
State Government Codes	3	33%	15	79%	18	64%
COSO Framework	1	11%	2	11%	3	11%
Total Participants of Study	9		19		28	

Robert Monroom, Chancellor, described the frameworks of his district: "We use Board policies. Every Education Code that pertains to community colleges we have to abide by. So all this is that our practices are tested against these standards." When Ann Green, Chancellor, was asked to describe the framework her district used, she said, "We

use California community college policies and standards. We use them to determine what is applicable to and good for our district.” Donald Kuh elaborated on the frameworks guiding his district’s Internal Control Practices as follows:

We have, not only do we have our Board policies and administrative policies, we have Government Code. We have Education Code. But then if we have Federal grants, then you have A-121, A122, you have all of the OMB Circulars. A-133 is another big one as well.

In contrast, an overwhelming majority of the survey participants (95%) indicated their districts were guided by CCCC Office’s compliance guidelines and 89% indicated their districts were guided by their college district Boards’ policies, California Education Code, and Federal compliance requirements. Seventy-nine percent (79%) of the survey participants indicated their districts followed the California Government Code as the framework. However, only 11% of the survey participants indicated their districts used COSO as a framework.

All participants were asked about the reasons for their districts’ choice of the frameworks used. Six of the nine interviewees stated their districts used these frameworks because they were mandated by law. Two indicated their districts chose the frameworks to control the districts’ risks. One explained protection of the district’s assets and best business practice, credibility, and confidence of outsiders were his district’s reasons for the frameworks used. Being mandated was noted specifically: “They are mandated by State Chancellor’s Office” (Robert Monroom). “They are mandated requirements. We have to match revenues streams with sources” (Pauline Boyd). “We have no choice. They are mandated” (Rene Pepps).

Internal Control Roles of the Board of Trustees of the College Districts

The Board of Trustees of each California community college district has oversight authority of the district's Internal Control practices. The interview participants of the study were asked, "What is the district Board of Trustees' role of the Internal Control Practices of the district?" All nine interview participants of the study stated the Boards of their districts approve the policies of the districts, which include Internal Control policies. In addition, 11 (58%) of the 19 survey participants indicated that "to a great extent" and "to a very great extent" their districts had Board approved policies in place. Another seven (37%) indicated that to a "moderate extent," their districts had Board approved policies to guide the districts' Internal Control practices.

Ann Green, one of the interview participants and a Chancellor, explained the roles of the Board of Trustees of her district. "All policies go through the Board. The Board approves the policies not the procedures. I approved the procedures." Nora Blue, another interviewee and Chancellor said, "Make sure that the right policies are in place." "They approve everything that we do" (Felicia Laye).

All participants were asked about the Board members' levels of knowledge regarding their districts' Internal Control practices and whether at least one Board member of their districts has expertise in Accounting, Business, or Finance. As shown in Table 16, 18 (64%) of the 28 participants noted their district Board members were knowledgeable about their districts' Internal Control practices and 10 (36%) said they did not know or the Board members were not knowledgeable about their districts' Internal Control practices.

Also, as shown in Table 17, 15 (54%) of the 28 participants indicated each of their Boards of Trustees had at least one member with financial, accounting, or business expertise. Thirteen (46%) indicated the Board of Trustees of their districts did not have at least one member with expertise or did not know if at least one member of their districts' Boards of Trustees had expertise in accounting, business, or finance.

Table 16

Boards' Knowledge about Districts Internal Control Practices

Question	Knowledgeable and from "to some extent" to "a very great extent"	Not knowledgeable and to a small extent knowledgeable	Total
To what extent are members of the Board knowledgeable about the Internal Control Practices of the District?	18	10	28
Percent of Total Participants of Study	64%	36%	100%

Table 17

Boards' Expertise in Accounting, Business, or Finance

Question	Yes	No and Don't Know	Total
Does at least one member of the Board have expertise in Accounting, Business or Finance?	15	13	28
Percent	54%	46%	100%

Marginalization of Some Internal Control Practices

Internal audit, monitoring of Internal Control activities by management, communication of Internal Control requirements to staff by management providing Internal Control training to staff, and correction of identified Internal Control deficiencies

are marginalized at most of the college districts that participated in the study. The information from the study indicated that a majority (78%) of the participating college districts did not have Internal Audit functions as part of their Internal Control Practices (see Table 18).

Table 18

Districts' Internal Audit Functions

Description	Number	Percent
Number and percent of the 72 districts that have Internal Audit functions (Internal Auditors)	16	22%
Number and percent of the districts that have Internal Audit functions whose CAE participated in the Study	8	50%
Number and percent of CAE participants that work at work multi-campus districts	6	75%
Number and percent of CAE participants who perform other district functions (budgeting) besides internal auditing	5	63%
Number and percent of the 8 CAEs who indicated they report to the Board of Trustees of their districts	2	25%
Number and percent of the 8 CAE participants who said they report to their district's Chief Financial Officers	5	63%
Number and percent of the 8 CAE participants that have 6 or more years of audit experience	8	100%
Number and percent of the 8 CAE participants that have degrees in Accounting	7	88%
Number and percent of the 8 CAE participants with graduate degrees	4	50%
Number and percent of the 72 districts whose Chief Financial Officers (CFO) participated in the study	17	24%
Number and percent of the 17 CFO participants who indicated that Internal Audit functions are either important, very important, or extremely important for their districts	12	71%
Number and percent of the 17 CFOs who indicated that their districts have stand-alone Internal Audit functions	7	41%
Number and percent of the 7 CFOs who indicated that the Internal Audit functions of their districts is adequately staffed.	2	29%

The California community college system has 72 community college districts with 112 colleges. A list of Internal Auditors for the districts was obtained for the study

from the CCCCCO. The list showed 16 (18%) of the 72 college districts have employees classified as Internal Auditors. Half (50%) the 16 districts that have Internal Auditors participated in the study (see Table 18). Three districts participated in the interviews and five participated in the survey.

Only one of the three districts that participated in the interviews for the study had a stand-alone internal audit function with a full-time Internal Auditor who also had the title of Director of Internal Audits (CAE). “This is a one person shop for now. I am hoping that we get at least one or two persons” (Felecia Laye). At each of the other two districts, the CAE performed other fiscal functions mainly budget functions.

I was recently promoted. So right now I am wearing two hats but the Internal Audit position is much more of a reactive position right now. If an issue comes up then an audit is conducted. If you come back 5 years from now, the story will be different. (Rene Pepps)

Sarah Wuh also explained how the internal audit functions at her district were carried out:

We employ a 50% individual to serve as the district’s Internal Auditor and what we do with this position is the Internal Auditor assesses the risk throughout the district. And because she is only 50%, the employee obviously should not have the time to go out to each and every area in the district but through the prioritization of risks, she and I meet to determine how many areas she will be testing in a given year.

The CFOs and Internal Auditors were asked in the survey: “Does your district have a stand alone or formal Internal Audit functions”? Only eight (42%) of the 19 participants said their districts had stand-alone Internal Audit functions. Six (75%) of the eight who indicated their districts had stand-alone Internal Audit functions also indicated the Internal Audit staffs of their districts were not devoted full-time to Internal Audit functions; they performed other functions.

The 19 CFO and CAE survey participants were also asked about the importance of internal audit functions to their districts. The majority (68%) of the 19 indicated it was important, very important, or extremely important their districts had Internal Audit functions. Three participants indicated it was somewhat important and three (all CFOs) indicated it was not important.

The majority of the CAEs of the districts that participated in the study indicated they reported to the CFOs of their districts. For instance, at the three districts that participated in the interviews, two CFOs stated the CAEs of their district reported to the CFO and one said the CAE of his district reported to the Chancellor. From the survey responses, of the four CFOs who indicated their districts had Internal Audit functions, one indicated the CAE of his or her district reported to the Chancellor and two indicated the CAEs of their districts reported to the CFO of the districts. One did not respond to the question on the level of authority to whom the CAE of his or her district reported.

Although Internal Audit functions are not structurally present at most of the districts (only 16 of 72 districts have a CAE), qualifications of the CAEs employed at the districts having Internal Audit functions met the best practice standards for CAE qualifications. All (100%) CAE participants indicated they had six or more years of experience in their profession. Seven (88%) of the eight CAE participants indicated they had degrees in Accounting. Four (50%) also indicated they had advanced (graduate) degrees. Additionally, of the three CAE interview participants, two were Certified Public Accountants and one was a Certified Internal Auditor. The CAE survey participants were not asked about their professional certifications.

Also, based on the analysis and synthesis of the information from the study, it appears control activities are not monitored by management at most of the districts. Only 57% of the total 28 participants indicated that monitoring of Internal Controls by management and correction of Internal Control deficiencies by management (see Table 12) were components of the Internal Control practices of their college districts. Additionally, only 50% of 28 participants of the study indicated that communicating Internal Control requirements to staff and providing Internal Control training to staff by the management of their college districts were part of their college districts' Internal Control practices (see Table 12).

Results and Interpretations

The final results of the study are based on the analysis and synthesis of findings and related to information from the literature review of the study. Each finding was compared to the relevant prior research discussed in the literature review to form the study's final results. The results reflect the cultural and professional work experiences of the research participants at their particular community college districts as revealed through their responses to the interview and survey questions. Artifacts guiding the practices of the participants were also utilized to inform the final results of the study.

The discussion of final results and subsequent interpretations are described in five components: a) the Internal Control Practices and their Guiding frameworks, b) the Internal Control roles of the college districts' Management and Boards of Trustees, c) Internal Control practices compared to best practices of higher education and SOX, d) benefits of the college districts' Internal Control practices, and e) marginalization of some best practices of Internal Controls.

The Internal Control Practices of the College Districts and the Guiding Frameworks

The participants of the study revealed the Internal Control practices of most of the California community college districts that participated in the study mainly consisted of control activities, conflict of interest policies, code of ethics policies, shared governance, risk assessment, and whistleblower policies. The participants also pointed out the practices of the districts are primarily framed by the compliance requirements of the CCCCCO and their individual districts' approved Board policies (California Education Code Sections 70901 and 70902). These practices aligned with the practices noted by Vershoor (2002), Oxholm (2004) Mattie et al. (2005), Eaton and Akers (2007), Goins et al. (2009), and Martin (2010). The practices also align with the practices suggested by NACUBO (2003, 2005).

Although the practices revealed from the study aligned with the Internal Control practices suggested by NACUBO (2003) and others, the data from the study also suggested the extent of the adoption of the practices varied significantly among the districts that participated in the study. Some districts have adopted most of the practices while some have only adopted a few of the practices. The California Community Colleges Chancellor's Office and the California Education Code mandate the framework forming the basis of the Internal Control practices of the colleges; however, the compliance requirements and related Education Code sections do not mandate how the individual college districts formulate their practices. In addition, it is possible that what the participants referred to as Internal Control practices in their responses are simply policy statements and related procedures. The actual practices at some of the districts

appear to not be congruent with the policies and procedures and may have contributed to the Internal Control deficiencies at some districts. For instance, Verschoor (2008) cautioned, “merely having a code of ethics or a confidential reporting system isn’t enough; the executives aware of suspicious circumstances must investigate them thoroughly” (p. 3).

The Internal Control Roles of the College Districts’ Management and Boards of Trustees

The participants of the study were asked to indicate the Internal Control role of college districts’ management. Most of the respondents indicated the main role of management at their college districts’ Internal Control practices was related to the development of Internal Control activities (policies and procedures); Buhariwalla (2006) and Tsay (2008) validated this Internal Control role of management. The involvement of management in the development of Internal Control policies and procedures is seen to increase management buy-in and also enhance the successful implementation of the policies procedures.

Mattie et al. (2004) pointed out, “information and communication was one of the eight variables needed to enhance Internal Control practices at institutions of higher education” (p. 23). However, the participants of this study indicated that communicating Internal Control requirements to staff and providing Internal Control training to staff are considered the roles of management at only some of the participating districts. This difference may be an area for further investigation.

Although the main focus of the study was not on Internal Control roles of the Boards of Trustees of the college districts, a very important theme that emerged from the

study was the Board of Trustees of each college district approved the district policies for the Internal Control policies. California Education Code Section 7902(a) specifically authorizes the Board of each district to establish policies for the district.

The Board of Trustees of each college district also serves as the audit committee of the district, approves district audits and receives and reviews district audit reports. Robert Monroom, a study participant, pointed out, “the entire board serves as the audit committee.” Harrast and Mason-Olsen (2007) emphasized that an audit committee is critical to the credibility of financial reporting and reduction of management fraud. David (2009) indicated an effective audit committee focuses on transparency that promotes accountability. However, despite the importance and benefits of audit committees, at the majority of the few California community college districts that had internal audit functions, the CAE reported to the CFO of the districts and not the district Board of Trustees. This may impact audit findings they report.

Benefits Associated with College Districts’ Internal Control Practices

The participants were asked to identify the benefits associated with their districts’ Internal Control practices. The majority of the participants indicated integrity and accountability were the benefits associated with the college districts’ Internal Control Practices validating Huddleston’s (2005) conclusions. Although a majority of the study participants indicated most of the districts participating had integrity and accountability, the data also showed there is still room for some districts to improve in terms of integrity and accountability given the two benefits were not indicated by an overwhelming majority.

Although a majority of the respondents indicated integrity and accountability were the benefits associated with their Internal Control practices, it was equally important to note that less than half the respondents identified effectiveness, efficiencies, and accuracy of reporting as benefits associated with their Internal Control practices. The lack of identification of the aforementioned benefits contradicts the purpose of Internal Controls as noted by Koutopis (2007). Koutopis identified that efficiency and effectiveness of operations and accuracy of financial reporting were three of the objectives of Internal Controls.

Internal Control Practices Compared to Best Practices of Higher Education and SOX

Five of the six main Internal Control practices of the colleges – control activities, conflict of interest policies, code of ethics policies, risk assessment, and whistleblower policies – are congruent with the best practices of higher education and SOX (NACUBO, 2003, 2005; Oxholm, 2004). Although shared governance is not identified in the literature as a best practice of SOX, it is identified as a best practice of higher education by Miller and Miles (2008). Although the practices of the colleges are similar to the best practices of higher education and best practices identified in SOX, the effectiveness of the practices depends on their proper implementation by the college districts that had adopted them.

Marginalization of Internal Audits and Other Components of Internal Control Practices

Equally important to the practices identified by most of the participants of the study as the main practices of the colleges are the practices marginalized by the districts participating in the study. One of the marginalized practices that emerged from the study

is internal auditing. For example, only 36% of respondents indicated their college districts have internal audit functions. Oxholm (2004), Hayes (2008), and Fischer and Montondon (2009) all noted the benefits and importance of the internal auditing function. For instance, Fischer and Montondon (2009) noted, “Internal auditing is part of the University’s quality assurance mechanism as it is responsible for verifying that controls, the checks and balances of the system are in place and are effective” (p. 496).

Other marginalized practices that emerged from the study were monitoring of Internal Control activities by management, correction of Internal Control deficiencies by management, and communicating Internal Control requirements to staff by management. The findings and results of the study did not provide the reason for the inconsistent application of these practices across the districts that participated in the study.

Three best practices emerged from the literature review but were not indicated by the interview or survey participants. Joint control self-assessment between the internal audit unit and the other units within an institution of higher education and promotion of the control environment are two of the three practices suggested by Chadwick (2009) as well as by Dietz and Snyder (2011). The third is certification by CEO and CFO that their organization has an adequate system of Internal Control and the system is effective (Oxholm, 2004). These best practices were not indicated by the participants of the study as components of the Internal Control practices of their college districts.

Summary

The findings and results of the study were discussed in this chapter. Seven findings emerged from the study based on the analysis and synthesis of the aggregated information, which was obtained through the qualitative and quantitative research

methods utilized for the study as described in the findings section and in Chapter 3.

Four of the findings cover college districts' Internal Control practices, management's and the Boards of Trustees' role in Internal Controls, and comparison of the college districts' Internal Control practices to the best practices of higher education and best practices identified in SOX applicable to higher education. The other three findings cover benefits associated with the college districts' Internal Control practices, the Internal Control frameworks of the college districts, and four components of best practices identified by the participants appearing to be not evident at most of the college districts participating in the study. The four marginalized components were internal audit, communication of internal requirements to staff by management, monitoring of Internal Control activities by management, and correction of identified Internal Control deficiencies by management of the college districts.

Also, three Internal Control practices identified in the literature for the study as best practices of higher education were not indicated by study participants as components of the Internal Control practices of their college districts. These practices include certification of the adequacy and effectiveness of the Internal Controls by CEO, CFO, and other management personnel of an organization; control-self assessment; and improvement of control environment.

Chapter 5: Conclusion and Recommended Actionable Solutions

Introduction

This chapter provides conclusions and recommended actionable solutions based on the researcher's analysis, synthesis, and interpretations of the information that formed the basis for the findings and results presented in Chapter 4. The study was an ethnographic comparative case study incorporating mixed methods to inform the research regarding four research questions:

1. What are the Internal Control practices of California community colleges?
2. What role does management of California community colleges play in the Internal Control practices of the community colleges?
3. How have California community colleges benefited from their Internal Control practices?
4. How do the Internal Control practices of California community colleges compare to best practices of higher education and the best practices established in Sarbanes-Oxley Act of 2002?

The information used to formulate the findings was obtained through qualitative and quantitative research methods. The research utilized qualitative interviews of nine participants from three districts, a survey, artifacts (CCCCO compliance manuals, California Education Code, California Government Codes, approved district Board policies, etc.), and the researcher's field notes and observations during the interviews. Structured coding and analysis of the initial data was then utilized to develop a survey sent to the remaining districts' CFOs and CAEs. The findings and results were drawn

from the synthesis of both qualitative and quantitative analysis. The data collection methods were discussed in detail in Chapter 3.

This chapter is organized with the following categories: conclusions and recommendations for actionable solutions and summary. Each of these components of the chapter is discussed below. The conclusions section addresses the four general research questions of the study and one other conclusion that emerged from the interpretation of the findings and results. The recommended actionable solutions suggest possible resolutions to the issues identified during the study. They also indicate areas needing further study. Finally, the summary section provides abbreviated and condensed highlights of the key points of the chapter.

Conclusions

Five conclusions were drawn from the synthesis and interpretation of the study findings and results discussed in Chapter 4. The first four conclusions directly relate to the four general research questions of the study.

General research question 1: “What are the Internal Control practices of California community colleges?”

Responses to this question were based on the qualitative interviews exploring what the Internal Control practices of the participants’ community college districts and the framework forming the basis of the practices were. The responses to this question provided detailed insights and understandings of the practices. The survey of the study then confirmed the insights gained from the interviews.

In their responses to this general research question, the participants defined the Internal Control practices in place at their current college districts. The participants’

responses indicated eight Internal control practices: a) control activities, b) conflict of interest policies, c) code of ethics policies, d) shared governance, e) risk assessment, f) whistleblower policies, g) monitoring of Internal Control practices by management, and h) internal audits. However, the frequency distribution of the practices identified by the participants illustrated that the extent of the adoption of these practices varied across the college districts. Of the eight Internal Control practices identified by the interview participants, only four practices – control activities, conflict of interest policies, shared governance, and code of ethics policies – were overwhelmingly adopted at a majority of the college districts that participated in the study. While California Education and Government Codes mandate the compliance requirements as the framework for the California community colleges, they do not oversee the practices, which appears to be shown in the range of practices identified by this study's data. This variance may result in issues emerging from management practices and may be reflected in accreditation outcomes.

Research question 2: What role does management of California community colleges play in the Internal Control practices of the community colleges?

This question sought to define the role of management in the districts' Internal Control practices. In responding to this research question, the study's participants identified eight Internal Control roles management plays – development of Internal Control activities, correction of Internal Control deficiencies, communicating Internal Control requirements to staff, implementing Internal Control practices, approving Internal Control procedures, providing Internal Control training to staff, and selecting independent external auditors for the districts. Although the Internal Control roles

identified by the participants are congruent with the roles of management revealed in the literature for this study, only one of the roles – development of the Internal Control activities – was indicated by an overwhelming majority of the participants as the Internal Control role of their college districts' management. For the other seven roles identified by this study, four were identified by less than 50% of the study's participants as management's Internal Control roles. While best practices suggest roles for management, it is evident by this variance that management responsibilities vary by district, which may lead to operational issues.

The focus of this study was not on the Internal Control role of the Board of the Trustees. However, the Internal Control roles of the colleges' Board of Trustees emerged based on the participants' responses to research question two. An overwhelming majority of study participants indicated the Board of Trustees of their college districts approved the policies of their districts, which include Internal Control policies. For those districts with CAEs, most frequently the CAE reported to the CFO and not the Board of Trustees. This reporting structure may limit the CAE's ability to have a full picture of the practices within a district.

Research question 3: How have California community colleges benefited from their Internal Control practices?

Research question one was utilized to explore and identify the Internal Control practices adopted at California community colleges. The purpose of research question three was to identify the benefits of the current practices of the college districts. The finding that emerged from question three was that the benefits of the Internal Control practices at a majority of the college was an increase in integrity and accountability.

In their responses to research question three, benefits such as efficiency and effectiveness of operation, accuracy of reporting, transparency of operation, and timely preparation and approval of budgets were indicated by some, but not all the study's participants. However, less than half the study's participants indicated the above benefits were experienced by their college districts. For example, only 11% of the participants indicated that timely preparation and approval of the budgets of their college districts was a benefit associated with their college districts' practices. There appear to be opportunities from which to gain further benefits due to Internal Control practices at many of the California community college districts.

Research Question 4: How do the Internal Control Practices of California community colleges compare to best practices of higher education; compared to best practices established in Sarbanes-Oxley Act of 2002?

As indicated in Chapter 2, the requirements of SOX were not designed to be applicable to institutions of higher education. Some institutions of higher education have adopted some requirements of SOX that are relevant to higher education and have seen it strengthen and improve their systems of Internal Controls (Seaman, 2006). Except for the practice of shared governance, a comparison of the Internal Control practices of the California community college districts that participated in study to the best practices of SOX shows both practices were congruent with SOX and the best practices of the higher education. SOX appears to have high relevance to the Internal Control practices of higher education.

Summative Conclusions

The compliance requirements of the CCCC's Office as prescribed in manuals by functions and services of the college districts and made available to the college districts

for their use are detailed with respect to what the colleges are required to do to successfully accomplish their missions. However, based on the findings and results of this study, the application of the compliance requirements of the CCCCCO differs markedly across the districts that participated in the research. Some college districts have incorporated and implemented most of the requirements in their Internal Controls and some college districts have not.

Internal audit is an important internal independent evaluative service of an organization. The importance of internal audit was confirmed by this study when 84% of the 19 CFO and CAE survey participants indicated internal audit is extremely important, very important, important, or somewhat important to their college districts. This research suggests the financial leaders of community college districts have a strong appreciation for the importance of internal audit.

The study invited participation from Chancellors of three districts, the CFOs of all 72 districts and 16 CAEs in all districts that had created internal audit functions. Presidents and vice presidents of the individual college campuses of the multi-college districts participating in the study were not part of the study. Also, the Chancellors/Superintendents of the remaining 69 districts did not participate in the study. In addition, the staffs and middle management of the fiscal services divisions of all 72 college districts were not part of this study's population. Because the population of the study was small, the findings of the study may not be applicable and/or generalized to the entire California community college system or to community colleges in general. That said, it is hoped that the range of respondents, 20% of the CFOs within the California community college districts and 50% of the CAEs, offered insights accurately reflecting

the present circumstances within the state and provide information that may enhance the operations of all districts.

Recommended Actionable Solutions

As illustrated by the literature and responses of the participants of the study, internal audit, communicating Internal Control requirements to staff, monitoring of control activities and correction of Internal Control deficiencies by management are valuable components of the Internal Control practices of any organization including colleges and universities. It is, therefore, recommended that all the college districts include in their Internal Control practices effective systems of communicating their Internal Control requirements to their staff, monitoring their Internal Control activities, and correcting identified Internal Control deficiencies to mitigate any risks to which they may be vulnerable. It is also recommended that at least each multi-college California community college district employ one full-time auditor to provide independent internal auditing services to the district. A full-time qualified independent internal auditor will likely help increase each multi-campus district's ability to identify and mitigate the risks to which the district may be vulnerable.

To provide integrity, visibility, and independence for internal auditing services at a college district, the Internal Auditor of a college district is better placed to report to the Board of Trustees of the district. The internal audit function also needs to have an audit charter prescribing the duties and responsibilities of internal audit functions, including to whom the internal audit functions should report within each college district. The charter should be approved by the Board of Trustee of the college district and made available to

all staff of the district so all employees of the district can be aware of the existence of the district's audit functions.

The adoption of self-assessment and promotion of a control environment will help improve employees' awareness, knowledge, and support for a college district's Internal Control practices. This adoption is essential if California community college districts are to meet and exceed standards.

Certification of the adequacy and effectiveness of a college district's system of Internal Controls by the Chancellor/Superintendent, Vice Chancellor/Vice President for Administrative Services (CFO) of the college district would obligate them to monitor the Internal Control activities of their college district's Internal Control practices. These three practices – 1) control self-assessment, 2) promotion of a control environment, and 3) certification of adequacy and effectiveness of an entity's system of Internal Controls – are therefore recommended for adoption at the college districts. However, for the practices to be successfully implemented by the college districts, the Board of Trustees and the senior management of each district need to support their adoption. The senior management of each college district also needs to solicit the buy-ins and support of the Board of Trustees of their college district.

Implications for Further Study

This study identified that required important and best practices of Internal Controls, such as internal audit, communication of Internal control requirements to staff, monitoring of Internal Control activities, and correcting of Internal Control deficiencies by management, are not adopted at some of the college districts that participated in this research. However, the study did not examine the reasons for the lack of adoption of the

practices at some of the college districts. It is recommended the reasons for the lack of adoption of these practices at some districts be examined in future research. Finally, because the sample of the study was small, the results of the study may not be generalizable to all 72 college districts of the California community college system. To generalize the results of the study, the Chancellors of the 69 districts that did not participate in the interview portion of the study and the Presidents and Vice Presidents for Administrative Services (CFOs) of the individual colleges of multi-college districts need to be included in the population of the study. Therefore, a future study of the problem including all Chancellors and Superintendents of the college districts and the Presidents and Vice Presidents of Administrative Services of the individual colleges of multi-college districts is recommended.

Summary

The data and information from the research provided that the Internal Control practices of California community colleges are guided by compliance requirements of the CCCC's Office and the approved policies of the Board of Trustees of each college district. The compliance requirements of the CCCC Office are congruent with most of the best practices of higher education and best practices of SOX that are applicable to higher education except three recommended best practices: control self-assessment, promotion of Internal Control environment, and certification of the adequacy and effectiveness of an entity's system of Internal Controls by the CEO, CFO, and other management personnel of the entity.

Although overall the required Internal Control practices of the California community college system are congruent with most of the recommended best practices of

higher education and best practices of SOX that are applicable to higher education, some of the college districts have not adopted the required practices. For example, on the average, less than half the 28 participants of the study indicated their districts' Internal Control practices did not include an internal audit, communication of Internal Control requirements to staff, monitoring of Internal Control activities, or corrective actions on Internal Control deficiencies by management of their college districts.

Therefore, it is recommended the aforementioned important components of Internal Controls are effectively adopted at the college districts that have not adopted them. Specifically, an internal audit is recommended for all college districts that have multi-college campuses. It is also recommended the internal audit functions of each district report to the Board of Trustees of the district. Reporting to the Board of Trustees will provide integrity, high visibility, and independence for the function. The internal audit functions of each district should also have an audit chart that must be approved by the Board of Trustees of the district.

Control self-assessment, promotion of a control environment, and certification of adequacy and effectiveness of Internal Controls by the CEO, CFO, and other management personnel are recommended for the college districts. The literature review for the study indicated control self-assessment is expensive, although control self-assessment and the other recommended components of Internal Controls can improve the effectiveness and efficiency of an entity's Internal Control system. Therefore, before a college district decides to adopt control self-assessment and/or any of the recommended components of Internal Controls as part of its Internal Control practices, it should first determine whether or not a component is cost effective to adopt.

The researcher's belief is that the findings and results of this study will provide higher education practitioners, students of higher education, and other interested stakeholders with a better understanding of the best practices of Internal Controls in higher education, especially community colleges. The practitioners' understanding of the practices may guide practitioners to adopt the best practices that may be effective in their educational institutions. As noted in Chapter 1 of this study, the findings and results of this study will also contribute to the literature of higher education, especially community colleges.

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Appendix A: Qualitative Interview Protocol

Position of Interviewee:

Name of Organization: (Pseudonym Only)

Place of Interview:

Date of Interview:

Time of Interview:

Name of Interviewer:

1. Please describe the Internal Control practices of your community college District.
2. How often are these Internal Control practices reviewed and revised to meet the changing needs of the District?
3. How are the Internal Control practices of the District communicated to the employees of District?
4. What training is provided to the employees of the District about the District's Internal Control practices?
5. How often is training about the District's Internal Control practices provided to District employees?
6. What Internal Control framework (Standards) does your District use for its Internal Control practices?
7. Why has the District chosen to use this framework for its Internal Control practices?
8. What level of the District's organization does the Internal Audits Department report to?

9. What is the District Management's role of the Internal Control practices of the District?
10. What is the District Board of Trustees' role of the Internal Control practices of the District?
11. How knowledgeable are the members of the Board of Trustees of the District about the Internal Control practices of the District?
12. What specific Internal Control practices does the district have for prevention of financial and other improprieties (fraud, misappropriation, misuse of district resources etc.) by District employees?
13. How are improper activities by management and staff of the District reported to the Board of Trustees of the District?
14. How do the Internal Control practices that you have described, benefit the District?
15. Is there anything else about the Internal Control practices of the District that you would like to discuss?
16. Please tell me about your background and how long you have been in this position?

Appendix B: Survey Instrument

For each question/statement please select the one response that best describes the Internal Control Practices of the California community college where you work.

1. My district has Board approved policies for
 - (a) All functional areas
 - (b) Most functional areas
 - (c) A few functional areas
 - (d) No functional areas
 - (e) Don't know
2. Who sets each District-wide Policy?
 - a) The functional area to which the policy applies
 - b) A designated District division/department
 - c) An outside consultant
 - d) Other (please state)
 - e) Don't know
3. Who writes each district-wide policy after it is set?
 - a) The functional area to which the policy applies
 - b) A designated District division/department
 - c) An outside consultant
 - d) Other (please state)
 - e) Don't know

4. Who reviews District-wide policies before they are approved by the Board?
 - a) Chancellor's Cabinet
 - b) Shared Governance Committee
 - c) Chancellor's Cabinet and Shared Governance Committee
 - d) Other (Please describe)
 - e) Don't know
5. The District has administrative procedures for
 - (a) All Board approved policies
 - (b) Most Board approved policies
 - (c) A few Board approved policies
 - (d) None of the Board approved policies
 - (e) Don't know
6. Who reviews Administrative procedures before they are approved?
 - (a) Chancellor's Cabinet
 - (b) Shared Governance Committee
 - (c) Chancellor's Cabinet and Shared Governance Committee
 - (d) Other (Please describe)
 - (e) Don't know

7. Who approves the Administrative Procedures of the District?

Select as many responses as applicable:

- (a) The Board of Trustees
 - (b) The Chancellor/Superintendent
 - (c) The Vice Chancellor/Associate Superintendent for each functional area
 - (d) Other (Please describe)
 - (e) Don't know
8. In addition to District Policies and Administrative Procedures, there are desk procedures for
- (a) All positions of the District
 - (b) Most positions of the District
 - (c) A few positions of the District
 - (d) Other (s): Please describe.
9. The Internal Control practices of the District include formal risk assessment to identify high risk areas of the district.
- (a) Yes
 - (b) No
 - (c) Don't know

If your answer to question #9 is "Yes", please answer Question #s 10 through 12 and continue. If your answer is "No" or "Don't Know" skip to Question #12.

10. How often is the Risk Assessment of the district performed?

- (a) Every two years
- (b) Every year
- (c) Every 6 months
- (d) Other (Please describe)
- (e) Don't know

11. In the risk assessment of the district

- (a) All functional areas of the District are assessed
- (b) Most of the functional areas of the District are assessed
- (c) A few of the functional areas are assessed
- (d) Other (Please describe).
- (e) Don't know

12. Who performs the risk assessment of the District

Select as many responses as applicable:

- (a) District Internal Audit Department
- (b) Management of the Functional areas
- (c) Outside Consultant
- (d) Other (Please describe)
- (e) Don't know

13. If risk assessment is performed by District Internal Audit Department or management of the function, to what extent are District management of the functional areas involved in the risk assessment process/
- (a) Very involved
 - (b) Somewhat Involved
 - (c) Less involved
 - (d) Not involved
 - (e) Other (Please describe)
14. To what extent are staffs in the functional divisions of the District involved in the risk assessment process?
- (a) Very involved
 - (b) Somewhat Involved
 - (c) Less involved
 - (d) Not involved
 - (e) Other (Please describe)
15. Does the District have an Internal Audit Function as part of its Internal Control Practices?
- a) Yes
 - b) No
 - c) Don't know

If your response to Question #15 is "Yes" please answer Questions 16 through 18 and continue. If your answer is "No" or "Don't Know, please skip questions 16 through 18 and continue responding on Question 19.

16. In this District to whom does the Chief Audit Executive (CAE) report?

- (a) The Board of Trustees
- (b) The Chancellor
- (c) Vice Chancellor/Associate Superintendent for Administrative Services (CFO)
- (d) Other (Please describe)
- (e) Don't know

17. The Internal Audit function of the District is

- (a) Full-time
- (b) Half-time
- (c) Quarter-time
- (d) Other (Please describe)
- (e) Don't know

18. I believe the District's Internal Audit function is

- (a) Overstaffed
- (b) Adequately staffed
- (c) Insufficiently staffed
- (d) Other (Please described).
- (e) Don't know

19. I believe the District needs an Internal Audit function as part of its Internal Control practices

- (a) Yes
- (b) No

20. The District regularly adopts “Best Practices” of Internal Controls to consistently improve its Internal Control Practices?

- (a) Yes
- (b) No
- (c) Don’t know

If your response to Question #20 is “Yes”, please answer Question #21 and continue. If your response is “No” or “Don’t know”, skip question #21 and continue on Question #22.

21. What are the sources for the “Best Practices” of Internal Control that the District has adopted to improve its Internal Control Practices?

Please select all that apply:

- (a) Other community colleges that use Best Practices
- (b) ACCBO (Association of California Community College Business Officers)
- (c) NACUBO (National Association of College and University Business Officers)
- (d) Other (s): Please describe.
- (e) Don’t Know

For Question #s 22 to 33 please select all responses that apply to your District.

22. The District has adopted the following framework(s) for its Internal Control Practices

- (a) COSO
- (b) State Education Code
- (c) State Government Code
- (d) District Policies
- (e) District Administrative Procedures
- (f) Federal Compliance Requirements
- (g) Other (Please describe)

23. Why has the District adopted the Framework (s) that you selected above?

Select as many responses as applicable:

- (a) Mandated by law
- (b) To improve the Internal Control Practices of the District
- (c) Based on best practices
- (d) Other (s): Please describe.
- (e) Don't Know

24. As part of its Internal Control Practices, the District has

Select as many responses as applicable:

- (a) A Conflict of Interest Policy
- (b) A Code of Ethics Policy
- (c) A Whistleblower Policy

25. What Internal Practices does the District have in place to deter financial and other improprieties (fraud, misappropriation, misuse of District's resources etc.)?

Select as many responses as applicable:

- (a) External Audits
 - (b) Internal Audits
 - (c) Risk Assessments
 - (d) Segregation of Duties
 - (e) Whistleblower Policy
 - (f) Conflict of Interest Policy
 - (g) Code of Ethics Policy
 - (h) Other (s): Please describe.
26. How are improper activities by employees reported to the Board Trustees of the District
- (a) Reported by the Chancellor at closed-session meetings of the Board of Trustees
 - (b) Reported by the Chancellor at opened session meetings of the Board of Trustees
 - (c) Other (s): Please describe.
 - (d) Don't know

27. As part of the District Internal Control Practices, what are the consequences of improper activities by an employee (s) of the District

Select as many responses as applicable:

- (a) Dismissal from District employment
- (b) Suspension from District employment
- (c) Criminal Prosecution
- (d) Civil Prosecution
- (e) Other (s): Please describe.
- (f) Don't know

28. The District's Internal Control Practices are communicated to employees of the District by

Select as many responses as applicable:

- (a) Posting them on the District websites
- (b) Email to all District employees that include the policies/practices as attachments
- (c) Employees' supervisors
- (d) Other (Please describe).
- (e) Don't know

29. The District's Internal Control Practices are reviewed

- (a) Annually
- (b) Quarterly
- (c) As needed
- (d) Other (Please described)
- (e) Don't know

30. How often are the District's Internal Control Practices revised after they are reviewed

- (a) Annually
- (b) Quarterly
- (c) As needed
- (d) Other (Please describe)
- (e) Don't know

31. Is training provided to District employees about the Internal Control Practices?

- (a) Yes
- (b) No
- (c) Don't know

If your response to Question #31 is "Yes" please answer Question #32 and continue. If your response is "No" or "Don't know", please skip Question #32 and continue on Question #33.

32. How often is the training provided?

- (a) Annually
- (b) As deemed necessary
- (c) On need to know, as employees perform their job duties
- (d) Other (s): Please describe.
- (e) Don't know

33. How do the Internal Control Practices of the district benefit the District? Please select all that are applicable to your District.

Select as many responses as applicable:

- (a) Improve integrity of the District
- (b) Timely preparation of Budgets
- (c) Timely approval of Budgets
- (d) Efficiency of Operations
- (e) Effectiveness of Operations
- (f) Accuracy of reports
- (g) More accountability
- (h) More transparency
- (i) Pass Accreditation
- (j) Other (s): Please describe.

34. Does at least one member of the Board of Trustees have expertise in Accounting or Finance or Business?

- (a) Yes
- (b) No
- (c) Don't know

35. To what extent are the members of the Board of Trustees of the District knowledgeable about the Internal Control Practices of the District?
- (a) Very knowledgeable
 - (b) Somewhat Knowledgeable
 - (c) Not Very Knowledgeable
 - (d) Not knowledgeable
 - (e) Don't Know
36. At your community college District, what is management's role of the Internal Control practices of the District (Select all that apply)?
- a) Develop Internal Control policies
 - b) Develop Administrative Procedures for the policies
 - c) Approve the Administrative Procedures
 - d) Implement Internal Control policies
 - e) Implement the Administrative procedures
 - f) Provide Internal Control training to staff
 - g) Monitor implementation of Internal Controls
 - h) Other : _____
37. Is your District a multi-campus district or single campus districts
- (a) Multi-campus District
 - (b) Single-campus District

If your response to Question #37 is Multi-Campus District, please answer Question #38 and continue. If your response is "Single-Campus District", please skip Question #38 and continue on Question #39.

36. How many campuses does the District have?

- (a) 2 campuses
- (b) 3 campuses
- (c) 4 campuses
- (d) 5 campus
- (e) More than 5 campuses

37. What is your current position with the District

- (a) Vice Chancellor/Associate Superintendent (Chief Financial Officer)
- (b) Acting Chief Financial Officer
- (c) Chief of Internal Audit (Chief Audit Executive)
- (d) Acting Chief Audit Executive
- (e) Other: Please describe.

38. How long have you been in your current position with this District?

- (a) 1 year or less
- (b) More than 1 year but less than 2 years
- (c) More than 2 years but less than 3 years
- (d) More than 3 years but less than 4 years
- (e) More than 4 years

39. How many years of experience do you have in auditing

- (a) 1 to 5 years
- (b) 6 to 10 years
- (c) 11 to 15 years
- (d) 16 to 20 years
- (e) More than 20 years

For Question #s 42 and 43 please select all applicable responses. If your answer is no degree answer do not answer Question #42.

40. What is your educational background?

Select as many responses as applicable:

- (a) Bachelors degree (s)
- (b) Masters degree (s)
- (c) Doctorate degree (s)
- (d) High School Degree

41. If you have a degree (s) what is the discipline (s) of your degree (s)?

- (a) Management
- (b) Accounting
- (c) Finance
- (d) Educational Administration
- (e) Economics
- (f) Other (s): Please state.

Thank you very much for participating in my Dissertation Research Survey. I appreciate your time and effort.

Appendix C: Interview Participants' Invitation Letter

Dear _____:

Re: Dissertation Research Interview Participation Invitation

My name is Jenkins Kumeh, a doctoral candidate for the degree of Doctor of Education (EdD) in Educational Leadership and Management at Drexel University. I am writing to ask for your participation in my dissertation research study that I will be conducting at community colleges on "Internal Control Practices of California Community Colleges". I am conducting this dissertation research as a requirement of my EdD program at Drexel University.

The intent of this study is to understand the Internal Control practices of California community colleges and explore how these practices compare with the best practices in higher education and those suggested by Sarbanes-Oxley Act of 2002. My hope is that the findings of the study will inform higher education leaders, especially leaders of community colleges, about the best practices of Internal Controls that may improve the efficiency and effectiveness of higher educational institutions.

I received permission from _____ to conduct this study at _____. Your participation is requested in the form of a sixty –minute in-person interview with open-ended questions. There may be a brief follow-up telephone interview for clarification of your original answers in the in-person interview. Your interview is completely confidential and no identifiers of your responses will be included in the report of the study. Both the institution and individuals interviewed will be identified by pseudonym only. Hence, neither the location nor respondent will be identifiable.

Your participation in this research is voluntary. The interviews for the research will be ongoing through the end of April 2012. I know that your time is valuable and I will do everything that I can to set a time that is most convenient for you to conduct the interview at your office. The report of the study will be available in the form of dissertation.

Sincerely,

Jenkins K. Kumeh
 Doctoral Candidate
 School of Education
 Drexel University, Sacramento Graduate Center
 Sacramento, California

Appendix D: Districts' Site Permission Request Letter

Dear _____:

Re: An Inquiry of Internal Control Practices of California Community Colleges

I am a doctoral candidate in higher educational leadership and management at Drexel University. I am respectfully requesting for permission to conduct a study at _____ Community College District for my dissertation project. The topic of my dissertation is "An Inquiry of Internal Control Practices of California Community Colleges".

The purpose of the study at your district and other districts of the California community college system is to explore the Internal Control practices of California community colleges and identify best practices of Internal Controls that if implemented by the colleges would improve their efficiency and effectiveness. The results of the study will be made available to you in the form of a dissertation report at the conclusion of the study. The study will be a mixed method study with qualitative interview questionnaire that will be administered face-to-face to the Chancellor, Chief Financial Officer and Chief Audit Executive of your district separately. The duration of the interview with each of the three participants of your district will be about an hour. Your district's agreement to participate in the study will be voluntary. Each participant will be given a pseudonym and their responses will be coded by the pseudonym and secured for insurance of confidentiality.

If you agree to permit the study to be conducted at _____ Community College District, I respectfully request a Letter of Consent to conduct the study. The investigator of this study will assume all costs and expenses of this dissertation project.

If you have any questions before providing the Letter of Consent, I can be reached at the following numbers and email address.

Office:

Email:

The Supervising Professor and principal investigator for the dissertation research project is Dr. Kathy Geller. If you should need to, you can reach her at:

Office:

Email:

I am aware of the demands and constraints of your institution and that your time is very valuable. Given those the demands, I sincerely communicate my thanks and appreciation for your consideration of my request for my dissertation study. Please do not hesitate to contact me if you have any questions.

Sincerely,

Jenkins K. Kumeh

Co- Investigator and Doctoral Candidate, Drexel University

CC: Dr. Kathy Geller, Dissertation Committee Chair

Appendix E: Survey Participants' Invitation Letter

Dear _____

RE: Doctoral Dissertation Survey – “An Inquiry of Internal Control Practices of California Community Colleges”

My name is Jenkins Kumeh. I am a doctoral candidate for the degree of Doctor of Education (EdD) in Educational Leadership and Management at Drexel University. I am writing to ask for your participation in my dissertation research survey that I am administering on Internal Control Practices of California Community Colleges. The link for the survey is above.

I am conducting the dissertation research as a requirement of my EdD program at Drexel University. Your participation will take place in the form of close-ended questions with predetermined answers. Your answers to the survey questions are completely confidential and no identifiers will be included in the report of the study.

The intent of the study is to understand the Internal Control practices of California community colleges and how the practices compared to best practices of higher education and other best practices such as the best practices in the Sarbanes-Oxley Act of 2002. My hope is that the findings of the study will inform higher education leaders especially the leaders of community colleges about the best practices of Internal Controls that may improve the efficiency and effectiveness of higher educational institutions. I also hope that the study will contribute to the literature of Internal Control practices of higher education.

Your participation in this survey is voluntary. The survey for the research will be ongoing through the June 13, 2012. I know that your time is valuable and I sincerely appreciate your time for participating in the study. Please contact me at jk697@drexel.edu or (916) 504-8190 if you have any question regarding the survey.

Sincerely,

Jenkins K. Kumeh

Doctoral Candidate

School of Education

Drexel University, Sacramento Graduate Center

Sacramento, California

Appendix F: Sample Coding Table

QUESTION #	QUESTION	BLUE CCD			GREEN CCD	
		CHANCELLOR	CFO	CAE	CHANCELLOR	CFO
General Research Question #1	What are the internal control practices of California community colleges?					
	Please describe the internal control practices of your community college district?					
Interview Question #1	Please describe the internal control practices of your community college district?	Board approved policies; procedures for policies; policies online	Board policies; procedures; following up with managers; risk assessment; internal monitoring; policies and procedures posted on website	Board Policies; risk assessment; monitoring; internal auditor monitoring; management monitoring; internal audits; external audits;	Board policies for functional areas; Shared governance review of policies; District council review of policies; Board approval of policies; Whistleblower policy; Conflict of Interest; Code Ethics	Risk Assessment; internal audits; policies and procedures; External audits; State compliance requirements; Conflict of interest policy; whistleblower policy
Interview Question #2	How often are these internal control practices reviewed and revised to meet the changing needs of the district?	Every 3 to three years	Reviewed every 2 to 5 years based on risk assessment; when there is a probe;	Every 5 years; 2-year cycle to complete audit plan;	Every 3 years; some every year; share governance review	Annually; As needed; when there is an audit finding
Interview Question #3	How are the internal control practices of the district communicated to the employees of the district?	Share Governance committee share with constituents; online	Management communicates to employees; website	Discussion of audit findings; website	Share Governance communicate to constituents; District website; Part of board agenda on Board website	Training; review with new employees; online on district website
Interview Question #4	What training is provided to the employees of the district about the district's internal control practices	Check list of internal controls provided to each employee; internal auditor provide training after audit; managers train employees	workshops on policies and procedures; supervisor of functional areas provide training	Managers provide training to staff; check list; Discussion at staff meetings	Director of Public Affairs provide Policy training to share Governance Committee ; Share Governance Committee inform constituents;	Training to faculty classified, and leadership on policies; Fraud prevention training by internal auditor
Interview Question #5	How often are the training for the district's internal control practices provided to district employees?	As needed; no formal way	Training is provided on as needed basis; no set time	No formal process	No time-table for training; As needed basis	As needed throughout the year

Appendix G: Sample Survey Response Table

1	In terms of Internal Control Practices, to what extent are Board approved policies in place at your District?			
	Answer Options		Response Count	Response Percent
	Not at all (i.e., no functional areas)		1	5%
	To a small extent (1 or 2 functional areas)		0	0%
	To a moderate extent (i.e., a few functional areas)		7	37%
	To a great extent (i.e., most functional areas)		4	21%
	To a very great extent (i.e., all functional areas)		7	37%
	Don't know		0	0%
	Total		19	100%
2	Who initiates the direction for each District-wide policy (select the best option)?			
	Answer Options		Total Response Count	Response Percent
	The functional area to which the policy applies		11	58%
A	A designated District division/department		5	26%
	An outside consultant		0	0%
	Don't know		1	5%
	Other (please specify):		2	11%
	Total		19	100%
3	At your District what groups or individuals are ultimately responsible for formulating and writing Internal Control policies (select the best option)?			
	Answer Options		Total Response Count	Response Percent
	The functional area to which the policy applies		6	32%
A	A designated District division/department		11	58%
An outside	An outside consultant		0	0%
Don't know	Don't know		0	0%
Other	Other (please specify):		2	11%
	Total		19	100%
4	Who or what group(s) reviews District-wide policies before they are approved by the Board (select the best answer)?			
	Answer Options		Total Response Count	Response Percent
Chancellor'	Chancellor's Cabinet		3	14%
Shared	Shared Governance Committee		4	18%
Chancellor'	Chancellor's Cabinet and Shared Governance Committee		13	59%
Don't know	Don't know		0	0%
Other	Other (please specify):		2	9%
	Total		22	100%